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AUTHORIZATIONS FOR CERTAIN MARITIME PROGRAMS IN DOT AND FMC

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

AUTHORIZATION OF APPROPRIATIONS FOR FISCAL YEAR 1989 FOR CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF TRANSPORTATION AND THE FEDERAL MARITIME COMMISSION

MAY 26, 1988

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AUTHORIZATIONS FOR DOT AND FMC

THURSDAY, MAY 26, 1988

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:04 a.m., in room SR-232A, Russell Senate Office Building, Hon. John B. Breaux (chairman of the Subcommittee) presiding.

Staff members assigned to this hearing: Barry Kalinsky, staff counsel; and Bob Eisenbud, minority professional staff member.

OPENING STATEMENT BY SENATOR BREAUX

Senator BREAUX. The Subcommittee on Merchant Marine will please come to order.

This morning, the subcommittee will receive testimony regarding the reauthorization of appropriations for and proposals to modify the programs and responsibilities of both the Maritime Administration [MarAd] and the Federal Maritime Commission [FMC].

My first year of chairing the Senate Merchant Marine Subcommittee has confirmed, if not cemented in my mind, the fundamental role and responsibility our government has in maintaining a civilian shipbuilding and operating capability adequate to meet the national security needs of the United States.

This past year, we have had the benefit of the thoughts and study of some of the best minds in this Nation on the issue of the merchant marine and defense, and they have produced a set of recommendations for the Congress and for the President.

The Commission on Merchant Marine and Defense's report is not a difficult set of recommendations to comprehend. In many ways, they represent a composite of what many in the maritime community have been urging individually for some time now.

What is difficult for us is to find a way to provide for the necessary fiscal and programmatic support to implement these far-reaching recommendations.

The first part, of course, is to maintain, if not to strengthen, the very basic maritime promotional and regulatory programs of the Maritime Administration and the Federal Maritime Commission.

In this regard, MarAd has the responsibility for helping to maintain a U.S. flag liner fleet that can compete with foreign operations through those programs.

MarAd also has the responsibility to maintain a steady supply of trained merchant seamen, ready to respond to our Nation's securi-

ty needs. Of course, the State and the Federal Maritime Academies are central to this responsibility.

Finally, although this administration does not seem to believe it, MarAd has the responsibility to provide for needed ship financing through the Title XI program.

In a similar vein, the FMC has the responsibility to regulate our international liner trades to insure the maintenance of a reasonable and dependable common carrier service, as well as an international maritime trading environment that is free from discriminatory practices.

Today, I look forward to receiving some proposals that, quite frankly, may or may not contribute to our overall maritime objectives.

We are all intensely aware of the fiscal realities and constraints under which the Federal Government must operate, and therefore, our priorities must thus be defined.

I personally believe that a strong maritime industry is such a national priority and one that deserves our full efforts and attention.

The Chairman, Senator Hollings, has a prior commitment and could not make it this morning, but I have his opening statement that I will include in the record.

[The statement follows:]

OPENING STATEMENT BY THE CHAIRMAN

This morning's hearing is to authorize funding for our maritime promotional and regulatory programs, and comes at a time when our fourth arm of defense is currently in a depressed state of being and the outlook does not appear to be much brighter.

The Merchant Marine Acts of 1920 and 1936 affirmatively state that the United States shall have a merchant marine of the best equipped and most suitable vessels, sufficient to carry the greater portion of its commerce, able to serve as a naval or military auxiliary in time of war or national emergency, and ultimately to be owned and operated privately by citizens of the United States.

In reviewing our proposed maritime programs for next year, we should be mindful of the condition of the industry under present policy. For instance, the Merchant Marine of the United States has declined in oceangoing vessels from 840 in 1970, to approximately 360 vessels today. Projections indicate the fleet will shrink to 220 vessels by the end of the century. The number of merchant seamen has declined in the same period from 47,000 to 28,000, on the way to 12,000 by the end of the century. Furthermore, the ship repair and shipbuilding base in the United States has witnessed 76 shipyards close their doors and a loss of 50,000 jobs in that same time period. Finally, only 4 percent of U.S. ocean commerce is carried out on U.S. ships.

The Commission on Merchant Marine and Defense's first recommendation is that the President, by executive order, should promulgate a national policy statement that reaffirms the Maritime Policy contained in the Merchant Marine Acts as an initial step to reverse the deteriorating condition of the industry.

I suggest that this may be an appropriate starting point particularly, as we review the promotional programs under the jurisdiction of the Maritime Administration. These programs comprise the life-line on which the maritime industry exists. Initiatives such as the Operating-Differential Subsidy, Title XI loan guarantees, and our cargo preference laws are crucial in order to sustain a viable merchant fleet for commercial and national defense purposes.

I welcome our witnesses and look forward to their testimony.

Senator BREAUX. We are pleased to welcome here this morning, as our first witness, Mr. John Gaughan, who, of course, is the Administrator in the Department of Transportation for the Maritime Administration, and his colleagues who are accompanying him.

We welcome you back to the Committee and look forward to receiving your statement.

STATEMENT OF HON. JOHN A. GAUGHAN, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY WILLIAM CREELMAN, DEPUTY MARITIME ADMINISTRATOR; AND ROBERT J. PATTON, JR., DEPUTY CHIEF COUNSEL

Mr. GAUGHAN. Thank you very much, Mr. Chairman.

Mr. Chairman, I am accompanied at the table today by Bill Creelman, the Deputy Maritime Administrator, and Robert Patton, the Deputy Chief Counsel of the Maritime Administration.

Mr. Chairman, we have provided a rather substantial statement that, with your permission, I would ask just be entered into the record.

Senator BREAUX. Without objection, that will be submitted for the record, if you are willing to summarize.

Mr. GAUGHAN. I am. Thank you very much, Mr. Chairman.

The administration requests new budget authority of $184,851,000, including funding for operations and training and the Ready Reserve Force.

In addition, we request $248,900,000 to liquidate existing ODS obligations.

Mr. Chairman, should the administration's ODS reform program be enacted, the total of $275,290,000 would be required for ODS.

This includes $72,920,000 for new agreements with currently unsubsidized carriers. However, the cost reduction features of the program would reduce the per ship cost of ODS; therefore, the increase in funding the reform program is only $26,390,000 above the current program.

The administration proposes to resume support for the State maritime schools. In order to assure the availability of graduates during a national emergency, Federal funding would be conditioned on a requirement that graduates pass Coast Guard licensing exams and apply for and accept, if offered, commissions in an Armed Force Reserve unit.

The student incentive payment system would be terminated, and the direct payment to each school would increase from $100,000 to a maximum of $400,000, reflecting the saving of the SIP program but resulting in no lessening of Federal support to the State systems.

An implementation plan being done jointly with the State schools to implement a training ship sharing program is to be completed by fiscal year 1989. The budget proposes a level of $8 million to the State marine school program.

The Ready Reserve Force funding and responsibility is now consolidated in the Maritime Administration. Funding for the RRF was in Navy appropriations from 1982 through 1988.

MarAd requests a total appropriation of $110,751,000 for the RRF. This includes $35,400,000 for vessel acquisitions; $72,192,000 for maintenance and berthing; $1,183,000 for one ship activation and deactivation; and $1,976,000 for special programs.

Other funding requests are $1,850,000 for heating system renovations and other repairs at the U.S. Merchant Marine Academy; $2 million for the National Defense Reserve Fleet facilities program;

and $1 million in additional funds for technical and program studies.

The administration again requests that the Title XI program be phased out.

Finally, the administration requests that the Bankruptcy Code be amended to clarify the Secretary's authority to foreclose on a Title XI mortgage where the mortgagor is in bankruptcy.

Mr. Chairman, in the letter of invitation, I was asked also to comment on H.R. 4200, the House bill authorizing MARAD's programs.

H.R. 4200 differs from the administration proposal in several ways. It provides $300 million for ODS; $10 million for State school funding; $2 million for R&D activity.

H.R. 4200 would delay implementation of ship sharing until at least September, 1990.

There was a provision on bankruptcy that was deleted in the full Committee House markup yesterday. The House bill contains the Title XI program, excluding guarantees until 1990 for some inland waterway vessels and offshore oil and gas vessels.

That is a very brief summary, Mr. Chairman, of the highlights of our request for this year.

My colleagues and I are prepared to answer any questions you might have, sir.

Senator BREAUX. Thank you, Mr. Gaughan, for being with us again, and your staff for the work that you have done over the last several months with our Committee.

I think everybody agrees in the industry, no matter what segment of the industry you happen to be from or representing, that some type of ODS reform is needed. We have talked about it so many times. We are all sick and tired of hearing a call for it.

But yet, we really still are not much further down the road in enacting reform legislation.

This administration came in talking about ODS reform, and they are going out still talking about it. We have also talked about it in previous administrations, with not a great deal of success.

Everybody agrees something should be done, and yet, it is such a moving target that we can never pin it down. I hope we will all be around here long enough to see it actually accomplished.

My question of you is this.

The administration has put a proposal on the bargaining table, but we don't seem to be making a lot of progress on it.

From your perspective and the administration's perspective, can you bring us up to date on where you think we are and what you think the prognosis of any agreements being reached is?

Mr. GAUGHAN. Mr. Chairman, there was a headline in the "Journal of Commerce" today that went something to the effect that industry is still unable to agree on a reform program.

That sort of sums it up.

I sit as a member of the Commission on Merchant Marine and Defense, and we just concluded two days of public hearings on our report and recommendation, and the hearings were titled "Increased Competition—How to Make the U.S. Fleet Competitive."

Unfortunately, even within the operating community, there is not yet a consensus from the operators as to what the elements of

ODS reform should be. It is the same frustration that I guess you and I share. People recognize there needs to be reform, but we have not yet been able to get the elements of the operating industry itself to come together.

This does not even address the concerns that have been raised by the shipbuilding community that does not want to see ODS reform be implemented with, particularly, the build foreign authorities and leave them in the dust, without some additional program beyond the naval combatant and defense shipbuilding program.

Finally, you have maritime labor. I don't mean to speak for them, but, certainly, in the comments that were filed with the Commission on Merchant Marine and Defense, labor has significant problems with the administration's proposal of the lowest economic wage package and all because they view that as an intrusion, or an inclusion of the Federal Government at the bargaining table.

How you bring those three spheres together—and we have not even talked about the Congress or the administration, other than the markers that the Congress and the administration have put down on the legislation that is out there—I don't have a good answer for you, sir.

Where are we? We're at top, dead center.

I can only reiterate that the administration remains committed to pursuing efforts at ODS reform. I put this in the context that, when the administration first began its examination of maritime policy, the stated position was that we will honor existing contracts but not enter into new contracts.

The passage from that position to the legislative proposal that was submitted to the Congress in the summer of last year was an arduous passage in and of itself. Nonetheless, with that passage, the administration has signaled a willingness to negotiate or discuss what is needed.

We are not able, though, to even get the parameters in the most limited sense from the operators as to what they can or cannot accept.

Senator BREAUX. Would you give us a prognosis of what you think the condition of the industry will be in the future, assuming that nothing is done with regard to any ODS reform efforts, and assuming we continue on the same plane on which we are now operating?

Mr. GAUGHAN. Mr. Chairman, I think it is very fair to say that, if the status quo were to remain, the status quo meaning no ODS reform, no major changes in the trade environment and so forth, you will see a continued shrinking of the active fleet.

I don't care to get into specific companies because they can better speak for themselves. But, certainly, the projections are there that, if nothing is done, the fleet size will continue to decline. Without authority for subsidized operators to buy vessels at world market prices, these operators will not be able to renew and upgrade their fleets to stay competitive.

You have operators that, in the present environment, need and want new vessels but don't have the financial wherewithal to pull together the capital formation. So it is a very bleak picture.

Senator BREAUX. It's bleak now. I guess the Maritime Administration is saying unless some changes are made legislatively to allow things to be done that are not now being done and make some changes in the programs that are now on the books, things will continue to get even worse.

Mr. GAUGHAN. Yes, sir.

Senator BREAUX. How much, do you guess, the U.S. Government would be able to save, assuming that we had a healthy U.S. merchant marine industry out of the costs associated with programs such as the Ready Reserve Fleet and the National Defense Reserve Fleet? Bear in mind how much you are requesting in both of those areas in the budget.

Mr. GAUGHAN. Let me put it in this context.

The present configuration of the Ready Reserve Force is such that, even if you had a healthy fleet, many of the vessels that are in the RRF would still be because of their particular military utility, whether they be the crane ships, the ro-ros, and so forth.

Admiral Piotti could also address the same question.

I would not envision that the size of the present RRF would significantly be reduced because those vessels, many of those configurations, have particular utility in the surge timeframe of a mobilization.

If the working fleet does not maintain its present size and, in fact, decreases, you are going to be faced with increasing need for additional vessels to go into that reserve fleet in order to assure defense planners and the Nation that they have sufficient capacity to meet the need.

Senator BREAUX. How much are you requesting for the Ready Reserve?

Mr. GAUGHAN. The Ready Reserve is in the neighborhood of $110 million, of which $35 million is for acquisition, and the remainder, the $75 million, basically is for the maintenance and operations of the existing fleet.

Senator BREAUX. And for the National Defense Reserve Fleet the request is how much?

Mr. GAUGHAN. That is a relatively small amount of money The NDRF, of course, includes the ships that are in much deeper layup in terms of the dehumidification and so forth. We are looking at $2 million in additional funds for the NDRF facilities program, which is aimed primarily at dredging and the types of things that are needed at the reserve fleets.

Senator BREAUX. Not to exceed $12.299 million?

Mr. GAUGHAN. The precise amount is $11.10 million.

Senator BREAUX. So, you have $110 million plus another $11 million for $121 million that we are spending because we don't have an adequate, healthy U.S. merchant marine industry. Some ships in the Ready Reserve Fleet are there because of specific, special needs of the military that are not normally covered by a healthy merchant marine industry.

But, out of that $121 million, would there not be significant funds that would not have to be spent were we to have a healthy active fleet?

I doubt other countries that have healthy merchant marine industries have to have on the side a second pool of ships because

they don't have a healthy merchant marine. The Soviets, I would imagine, don't have these similar types of programs because they have commercial ships with a dual purpose, I would think.

Mr. GAUGHAN. Mr. Chairman, I think, for the short term, I don't view that you would have significant savings. I say that because the ships that are either in the NDRF in deep layup, or in the RRF, are, in fact, there to meet an immediate requirement for that capability.

By the time you worked out a revitalization program that brought your working fleet numbers up, you are still going to have that need.

Senator BREAUX. Let me ask it this way.

How much will we have to increase the Ready Reserve and the NDRF programs were we to lose all of our U.S. merchant ships, which, if we don't do anything, your prognosis is that that is what is going to happen? Then, how much more would we have to spend to insure that the military, in time of a national military need would have to have a ship that we could use?

Mr. GAUGHAN. We have never looked at it in that stark a way, Mr. Chairman.

Senator BREAUX. Well, my concern is that someone who is going to succeed me and someone who is going to succeed that person eventually is going to be looking here and if we don't do anything, which we have not done since I have been in the Congress—which is 16 years now—we are going to end up with nothing left, and all they will have is a Ready Reserve Fleet.

Mr. GAUGHAN. The projections of the Commission on Merchant Marine and Defense—and I can provide the precise numbers—are in the area that, if something is not done, you are going to see a U.S. fleet half the size that it is today in the year 2000, and all the trend lines, whether you are talking about shipyards or seagoing labor, run basically that same way.

So, you are looking, absolutely looking at significant additional costs if we are not able to reform the program and revitalize it, sir.

Senator BREAUX. Well, we will have some other administration down the line complaining about the horrendous costs that they are putting into the Ready Reserve Fleet and the NDRF programs because we don't have a healthy maritime industry. The answer is had we spent a little bit more on the U.S. merchant marine industry, we would have the costs underway.

I cannot overemphasize how dark I think the outlook is at the present time, and that is a message that needs to go to everybody, including those of us in the Congress, those in the administration, and those in the industry, in all aspects of it.

We are not looking at a very bright future, indeed, and we all know that.

Let's get on another stream of questions, if we can.

In the past two years, the budget has proposed to eliminate the funding for the State maritime academies. We have had that proposal submitted many times, saying that we have an over-supply of officers.

This year, it seems that the request has changed. You are now requesting some funds. What led to that change?

Is that just a mission that we are changing, or are you caving in to Congress, or do you think that there is a different policy reason for doing that?

Now, I'm glad that you did it. I'm just asking the question. Tell me why.

Mr. GAUGHAN. Well, there have been discussions within the executive branch over the last three years, with differing points of view as to what the President's budget should contain.

I would like to think that this year's budget, as it relates to the State academies, reflects a recognition that, in fact, there is a legitimate role for both a State and Federal maritime training program to provide a cadre of professional sea-going officers, needed in peacetime and, probably as importantly, or more importantly, depending on how you look at it, to have them available in a time of mobilization.

And so, it is a recognition that maybe the policy initiatives enunciated to terminate were wrong policy initiatives.

Senator BREAUX. Of course, with that change, on the one hand, also comes a greater degree of obligation. The administration is proposing that, unlike previously, only those who received the incentive payments would have a post-graduate obligation. However, what you are proposing now would require that all of the State academy students receive a Coast Guard license and accept a Reserve Commission as a prerequisite to graduation.

Some will argue that you are agreeing to give them money, but with these extra requirements, you are really moving toward putting the State academies out of business.

Would you comment on that?

Mr. GAUGHAN. If I could, I want to go back to a House report on the Maritime Education and Training Act of 1980. This refers to what the purpose of Title XIII is in the Merchant Marine Act.

"The training of United States citizens, so that they are fully qualified to perform the following functions: (a) serve as merchant marine officers on U.S. flag merchant ships in the foreign and domestic commerce of the United States; (b) serve as merchant marine officers on U.S. flag merchant vessels operating as a naval or military auxiliary; and (c) service on active duty in the United States Navy or other armed force of the United States."

So, the focus has been on the two points, the two conditions that we are seeking in the 1989 budget, in return for the substantial support of training ships on which cadets train. You would hope that, if they were training on these vessels, they were training for the goal of getting a Coast Guard license and would be available in a mobilization requirement.

There is one other change that I think is important to at least point out.

There is an employment requirement for these SIP students. These are the students that receive this incentive payment.

The employment opportunities at the present time are not all that we would like them to be. We would remove that employment service obligation which brings with it a requirement for involuntary service in the Navy if they don't meet the employment obligation.

I do not view the requirements and the changes to the SIP as a lessening of support for the State academies. The savings from the SIP program will be made available to increase the annual payments to the schools from $100,000 to up to $400,000. We have put no conditions on those funds. We have not said that the schools are to use the funds for administration or whatever.

If the State academies chose to have their own scholarship program or whatever with those funds, they certainly could do it.

Senator BREAUX. Have you met with the heads of the State academies and discussed the development of this program? If so, what has been their reaction?

Mr. GAUGHAN. Let me add one thing on the rest of the program. We have also proposed ship-sharing.

We have an implementation study underway that we have started with the State academies. We had a meeting in February, with an outline, and we are working with them with the goal of having that implementation study completed by September. That may be optimistic, but we are pursuing it nonetheless.

I did not discuss directly with the State academies the changes to the SIP and the service obligation in the development of the budget. I was, quite frankly, Mr. Chairman, and have been for my tenure as the Maritime Administrator, attempting to fashion a program that would allow for the President's budget to call for continued support and would, in fact, provide a long-term solution. In fashioning the SIP program, which has not been particularly effective, in terms of the number of people who apply, the number of people who come out of the pipeline, and so forth, we have looked at the employment obligation and did not see that as realistic.

I became increasingly concerned about the availability of qualified merchant mariners in mobilization, particularly as a result of my involvement on the Commission on Merchant Marine and Defense.

Senator BREAUX. It is a little disturbing that a program, although I can see some good features in the new proposal. However, I would expect, though I have not talked with them, that some of the State academies are going to say well, while you giveth on the one hand, you are taking away on the other hand so severely that you are going to put us in danger of being able to continue, particularly with Coast Guard licensing and the requirement of accepting a reserve commission; and that if we have the ultimate effect of closing all the State academies, we really have not helped them very much.

It is disturbing that a proposal that has that potential, monumental consequence, has not been discussed previously with the State academies.

I mean, they are going to come in here today—and, again, I haven't talked with them, so I don't know what they are going to say—but I would imagine they would say my goodness, couldn't somebody have picked up the phone and say, come down here, we want to talk to you about something that is life and death to your ability to continue.

Mr. GAUGHAN. Mr. Chairman, I did not view this initiative as a back-door way of killing the program. I viewed it myself, quite frankly, as a responsible proposal.

California already has the obligation, the requirement that they pass the Coast Guard licensing exam, as a condition of graduation. I believe Texas—and the superintendents will correct me if I am wrong, because they certainly have done that in the past—Texas requires all graduates to apply for a commission.

So there are already elements of it out there in different aspects of the various State training programs.

Senator BREAUX. One of the things that I think Marad would want to know in making this proposal is what is the potential effect on the enrollment of the schools, knowing that they now are going to have a military commitment that perhaps they did not have before?

If somebody comes up and says it's nice to give us more money, but if we are going to lose all of our students then, thanks a lot.

The only way you would find out whether they would expect that would increase their enrollment, keep it stable, or dramatically decrease it, or increase it, is to call them up and ask them what they think. That apparently was not done.

Mr. GAUGHAN. I'm not going to duck that. It was not done.

But I had listened to testimony by the State superintendents talking about how vital their schools were to the mobilization requirements of the country and so forth. The U.S. naval reserve, U.S. Merchant Marine reserve program does not, at its lowest intrusion, require more than a matter of passing the physical and having your name on file with the Federal Government for a period of six years, so that if a state of national emergency arose, you could be called upon to serve. It does not bring with it anything beyond that.

There are other programs that, by choice, can have higher levels of involvement. But this is not a situation that forces people into what I thought was an unreasonable obligation in return for continued support of the State schools through the training ship program.

Senator BREAUX. The points you make are good points. I guess what I am a little disturbed about is that it is supposed to be some type of partnership arrangement between the Federal Government and the State academies for the ultimate good. In a partnership, you generally have meetings and talk about what's good for the partnership, rather than having one partner seemingly send out a message that says here is how it is going to be, folks, and if you don't like it, take a hike.

That is kind of the impression that I am getting in that sense.

What about the ship-sharing proposal? Some would argue, I would take it, that that is not the most cost effective way of actually doing it. There have been proposals for use of the Ready Reserve Fleet ships for training purposes, which, seemingly, would make some sense to me, since that is what that ship ultimately, hopefully, be ready to be used for.

Some would argue that it is more efficient to keep it like it is than to do the ship-sharing proposal.

Have you done some cost analyses on that?

Mr. GAUGHAN. There have been and we have provided—and I will refer to them as "ad hoc studies"—three different staff reviews

of this from prior years that looked at the feasibility of ship-sharing.

All of the ad hoc studies showed that one, it was feasible, and, two, there were savings involved.

As another important aspect of this ship-sharing question, there are presently five State school ships. One in Massachusetts is an RRF designated vessel. The New York State school ship is in the process of being replaced. There will be offers for bids on a replacement vessel going out this summer. There is $18.5 million appropriated to make the conversion of it, and it happens to be a government-owned vessel that will be converted.

I can provide the actual range of ages of the other vessels, but we were looking also at the replacement cost of the remaining vessels and that burden on the Federal budget.

It was our view that the use of the present Massachusetts vessel and the replacement vessel from New York, in a properly constructed, ship-sharing plan, which we are participating in developing with the schools, would provide vessels to meet the training requirements of the schools. This plan would be more economical than the present schoolship arrangement and avoid the potential of—and you can pick a number—$58 million to $100 million in vessel replacement costs.

Senator BREAUX. How many ships are in the Ready Reserve?

Mr. GAUGHAN. There are 93 vessels in the RRF.

Senator BREAUX. There are 93. Then what is wrong with finding five of them, say, just to pick an arbitrary number, to be used for these training purposes? It will keep the ship in shape, keep it ready, as the term is used. It would provide training.

I mean, it is costing us to store these vessels anyway, and they are already owned by the United States. What's wrong with just taking those five vessels and allocating them to the schools, with the proper supervision, and keeping them working?

Mr. GAUGHAN. There are presently no vessels in the RRF that have the configuration to meet the State academies' training requirements, in terms of their passenger carrying capability, and so forth.

Senator BREAUX. Now that's an interesting statement.

We have 93 ships in supposedly a Ready Reserve Fleet that is supposed to be ready to meet the needs of a national emergency, and we are training these people to be able to run ships that are ready for a national emergency. How different is what they are training these men and women for from the ships that are sitting there? Do you see what I am saying?

Mr. GAUGHAN. I understand exactly what you are saying, Mr. Chairman.

At the present time, on the training cruises, and it will vary by the size of the school, the schools are taking a large number of cadets at the same time. So you have to have places for them to sleep, to eat, and to work.

Senator BREAUX. Do we not have troop carrying ships in the Ready Reserve?

Mr. GAUGHAN. No, sir. The only RRF designated passenger vessel is the Massachusetts vessel.

Senator BREAUX. How ready is our Ready Reserve Fleet if we don't have any ships that can carry troops?

Mr. GAUGHAN. I would defer to the Department of Defense on the particulars, but the primary way of getting troops to various battlefronts, if you will, is by air. You have the two U.S. flag passenger ships in Hawaii. There are NATO-flag vessels that would be looked to if there were a need to move troops by sea. But the Defense Department at the present time, does not, focus on moving troops by sea.

Senator BREAUX. Maybe I am missing something, but what you are saying seems disturbing to me, that we have a Ready Reserve Fleet of 93 vessels and we yet can't find any that are really suitable for future seamen from State academies for training.

Can it be worked out that they wouldn't all have to go on the same trip? Can't it be spaced out? Eventually they will have to take 1,000 cadets on the same tour, on the same voyage, but you can split it up. I just find the fact that we can't mesh these two ships over here (indicating) with the cadets over here (indicating) to mean that something is awfully wrong.

Mr. GAUGHAN. Well, there are a number of aspects to some of the points you have just made, Mr. Chairman.

I have not done any of the math on this, but if you have to make more than one trip, you're talking about whatever the daily operating expenses of the vessel are and multiplying it by however many more days it must operate.

The Department of Defense, in informal discussions about this area, has voiced concern that, if you reconfigured vessels in order to provide the accommodations under the way training cruises are taken now, they would lose cargo carrying capacity, and the purpose of the RRF is to be carrying cargo, if you will.

There have been discussions about modules that possibly could be put on the ship to provide living arrangements and so forth. That, again, has a cost to it that I have not looked at, but it could be quite expensive.

Senator BREAUX. I am not sure that what we are proposing is the best proposal. It may be—but I am just not certain—that we could do more with the Ready Reserve Fleet in that area.

Let me ask you about another area.

I am told that we have a fleet of about 277 vessels that we have effective U.S. control over, vessels that are, of course, owned by U.S. corporations or U.S. citizens, but are registered under foreign flag.

The GAO report concluded recently that if a foreign subsidiary of this American parent corporation owns a vessel, that vessel could not be requisitioned by the Secretary of Transportation for a national emergency unless there were some specific contractual arrangement that would provide for that.

Do you have any thoughts about that?

Mr. GAUGHAN. Mr. Chairman, the agency had consistently construed that provision of the law that was passed in, I believe, 1939, based on its review of the legislative history and so forth, to mean that, in fact, requisitioning authority did exist.

So, we are in obvious disagreement with the GAO.

Senator BREAUX. Do you know if that has ever been challenged? The only challenge, I guess, is in the event of a national emergency and someone said no way, you can't take my ship.

Do you know if it has been challenged or had any court litigation on the ability to requisition a ship like this?

Mr. PATTON. We did have one court case in which the authority was challenged. The court case was dismissed by the ruling that the plaintiffs did not have standing to bring the case.

I don't believe, as a matter of practice, that there has been any problem when the time came to requisition the vessels. But that is a distinction between the practicality and the legality.

Senator BREAUX. Has anyone considered a need or a requirement for any legislative fix to address what the GAO has raised in their report? If you wait until after an emergency occurs and you find out you can't take a ship, then we will be in litigation while there is a national emergency going on, and we can't use the vessel. That is my concern.

Is anyone in the administration concerned enough with the GAO report to make a recommendation for a change in legislation?

Mr. PATTON. We are certainly looking at that.

As you know, the GAO report also suggested that one possible fix on the problem was to have specific contracts with the owners of the vessels involved. So, part of the review process is to look to see whether that suggestion is practical, what that sort of contract might look like.

Senator BREAUX. Can you expect a report in six months, three months, three days, three weeks? In what amount of time would you expect a report?

Mr. GAUGHAN. I will put a deadline on it, and if my colleague falls off his chair, Mr. Chairman, you will know that it is unrealistic. I would not expect that it should be more than a couple of weeks before we ought to be able to report to the Committee on our review.

Senator BREAUX. Do you know if any of the ships that now fit this category have contractual agreements that would allow for requisitioning? Can you clear that question up?

Mr. GAUGHAN. I don't believe there are any at the present time.

Mr. PATTON. Under the War Risk Insurance Program, of course, the operators of a number of the vessels at issue have, in effect, agreed to make their ships available for requisition. In connection with approval for a transfer foreign under Section 9 of the Shipping Act of 1916, there are some conditions attached to a few of the vessels, under which the owners have consented to requisition expressly.

Outside of those two circumstances, I don't know of any other contracts.

Senator BREAUX. Okay.

I will look forward to receiving that report. Maybe we shouldn't do anything. I would just like to hear from the administration as to whether they think we need to do anything.

[The following information was subsequently received for the record:]

A report is being prepared on the administration's view as to the Secretary's authority to requisition foreign-flag ships owned by foreign subsidiaries of U.S. corpo-

rations when the President has declared a national emergency. The report is expected to be available on or about June 10, 1988.

Mr. GAUGHAN. The GAO report suggested, right at the end of it, that a solution to it was entering into contract. So my direction to the staff was that we should explore that and see what the practicality of it was.

I am faced with a couple of choices. I could just disagree with the GAO, Mr. Chairman. I don't know how productive that is, however, in terms of your time or my time, particularly, I guess, my time, in responding to questions from the Committee as to why we were thumbing our noses at GAO.

Senator BREAUX. My concern is the legal situation, not who is right or wrong within the government, but, really, whether we ought to address it legislatively to make sure it is not a problem.

Mr. GAUGHAN. I want to insure, from the practical standpoint, that those vessels are available.

Senator BREAUX. Give me a little discussion, if you will, on the current policy with regard to the title XI program. Are you not making any title XI loans? With regard to the oil and gas industry vessels, have you excluded any applications from them? Secondly, what is the status of the equipment that you have inherited because of the nonpayment of title XI loans? How much do you have? What is the prognosis of getting rid of some of that?

Mr. GAUGHAN. Mr. Chairman, I have been asked at every appropriations or authorization hearing basically this question over the last two or three years: are you going to adhere to this budget document that calls for termination, or are you going to adhere to the law? I have answered in every one of those cases that I will adhere to the law, sir.

The title XI program is still on the books. The regulations are in place, and, while it might appear that we are attempting to have the program terminate just by not taking action, the lack of activity is more reflective of the overall condition of every aspect of the industry, in terms of the applications that have come in and so forth.

Roughly two months ago, I issued a new commitment under the title XI program, and I believe there are three applications presently pending.

Senator BREAUX. For what?

Mr. GAUGHAN. Passenger vessels. The most noteworthy one has been George Steinbrenner's application for vessels to be built in Tampa.

Senator BREAUX. Where?

Mr. GAUGHAN. In Tampa, Florida.

Our most recent communication with American Shipbuilding was earlier this month. They had filed an amended application, and we communicated back to them some of the additional information that we were still seeking.

Senator BREAUX. What is the status of the supply vessels?

Mr. GAUGHAN. I could provide for the record the latest inventory of all the equipment that MarAd both has title to and expects to have title to in the future. Bill Creelman might want to comment on this because he has followed the specifics a little closer.

I would like to come back to it, though, and make some additional comments.

Mr. CREELMAN. Well, as you know, we have had a large number of defaults in the oil supply area, at a time of great distress in that segment of the industry. In order to avoid further stressing that industry, we have elected not to sell back at distressed prices, fire sale prices, supply vessels to the active offshore industry.

Many of those vessels have been sold, instead, for other purposes. Some of them have gone to military or quasi-military purposes—Aerostat vessels and the like. Many others have been sold for fish processing vessels, where new tonnage was needed.

Others have been put into long-term layup, most of them at the Beaumont Reserve Fleet site, with the thought that, when that industry recovered, as it surely will in time, those vessels were the best we had and would be valuable and could be returned to the industry at normal market prices.

Senator BREAUX. Approximately how many of these types of vessels do you have?

Mr. CREELMAN. Do we have now?

Senator BREAUX. Yes.

Mr. CREELMAN. I don't have a handle on the number that we have. It is well over 100.

Mr. GAUGHAN. I don't mean to dispute my colleague, but I was just down in the Reserve Fleet site, and it may be in the neighborhood of 50 pieces of equipment.

Mr. CREELMAN. Oh, in the Reserve Fleet?

Senator BREAUX. No. I was talking about what MarAd has picked up as a result of defaults and bankruptcies.

Mr. GAUGHAN. We can provide the specific numbers, Mr. Chairman, as to what is currently there. We do still have an active effort to get rid of equipment from our inventory through sales and so forth.

Mr. CREELMAN. We have had a different program with respect to inland barges, where they have been returned to the active fleet, but there we have required a scrapping on a one-for-one basis. If you wanted to buy one of the relatively new barges which make up the defaulted group, you had to agree to scrap an older barge.

That program has resulted in reducing the over-capacity in the inland fleet by about 100 vessels that have been scrapped.

But the industry has now recovered to the point that we have been surveying the industry's opinion and have found that, by and large, they suggest we now drop our scrapping requirement, and the prices available are very substantial and are recovering a large portion of the indebtedness on the default.

Senator BREAUX. Are you talking about the inland barge industry?

Mr. GAUGHAN. Yes, sir.

Senator BREAUX. I knew you were not talking about the oil and gas industry.

Our colleague, Senator Stevens, has joined us.

Do you have any questions?

Senator STEVENS. No, not yet. I have just arrived. But I will try to catch up.

Senator BREAUX. Okay.

Mr. Gaughan, we will have some other questions that we will submit to MarAd to respond to. You have covered a lot of territory and made some new requests, and requested changes in authorization which we will take a careful look at.

We will work with you and your people toward coming to an agreement.

[The statement and questions and answers follow:]

STATEMENT OF JOHN GAUGHAN, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Member of the Committee:

I am pleased to appear before you to discuss the Administration's request for 1989 appropriation authorizations. I would like to address the Administration's request which is significantly different from the House Authorization Bill (H.R. 4200). I will summarize these differences at the end of my statement.

Our request includes amounts for new budget authority totaling $184,851,000 including $74,100,000 for Operations and Training and $110,751,000 for the Ready Reserve Force, an activity formerly funded in Navy appropriations. We are also requesting $248,900,000 for appropriations to liquidate existing obligations of the Operating-Differential Subsidy account.

MAJOR BUDGET CHANGES

Several new policy directions and related budget changes result from Administration FY 1989 initiatives. These initiatives are consistent with the principles enacted over fifty years ago by the 74th Congress—to foster an adequate and well balanced merchant marine in order to promote the commerce of the United States and to serve as a naval and military auxiliary in time of war or national emergency.

Operating-Differential Subsidy

First, we are taking actions to further the development of the active merchant marine through the reduction and elimination of unnecessary regulations and the financial reform of the operating subsidy program. Our budget for Operating-Differential Subsidy (ODS) requests $248,900,000 in appropriations to liquidate contract authority which will adequately support the current program, 69.2 shipyears. Since 1980, the active U.S.-flag foreign trade fleet has declined from 224 to 134 ships. A reform of the ODS program was proposed by the Administration in late summer 1987 in order to stem this decline. It will promote more competition, reduce Federal costs, and open the program to previously unsubsidized operators. Extending the program to unsubsidized carriers will require additional funding, although the cost per ship year will decline. Upon enactment, total outlays of $275,290,000 would be required, of which $202,370,000 would be for payment of ODS under existing contracts and $72,920,000 would be for new agreements authorized by the legislation. Because these proposals include measures to reduce costs, the overall outlay increase of the reform proposal for 1989 would amount to only $26,390,000, though we would be supporting about 17.3 more shipyears of operation.

State marine schools

The Administration, in this budget, resumes support for the State marine schools on the condition that the program is restructured to improve its effectiveness and maximize the return on the Federal dollar. In order to assure availability of State school graduates during a national emergency, we are requesting an authorization for the State schools which conditions the use of Federal funds and the provision of training vessels on the requirement that graduates pass merchant marine officer licensing exams, and apply for and accept, if offered, commissions of at least six years duration, in the Navy or Coast Guard reserve, or a reserve unit of another Armed Force. These requirements are already in place for U.S. Merchant Marine Academy graduates. If the authorizations committees enact enabling legislation, we would phase out the student incentive payment program and begin reprogramming these funds to increase annual, direct payments up to $400,000 for each school. Concurrently, we are pursuing with the States a more efficient use of resources through sharing of training ships. We have asked the States to participate in an implementation plan to ensure effective development of the operational aspects of ship sharing. By the beginning of fiscal year 1989, this work should be completed and we anticipate a ship sharing plan which, in accordance with 1988 appropriations, will be prepared for the Secretary's approval prior to implementation. Ship sharing will

provide shipboard training for cadets significantly more efficiently than the current five ship program. By the year 2000, we estimate that $58-75 million of Federal monies will be saved by not having to replace three ships. In addition, we expect an annual saving of $800,000 in maintenance and repair expenditures. Our budget proposes a reduced overall level of $8,000,000 for the State Marine School program.

Ready Reserve Force

Another important initiative is the consolidation in MARAD of the funding and the responsibility for the RRF. The purpose of the RRF is to assure a supply of merchant ships adequate to support the deployment of U.S. armed services in time of national emergency. The active U.S. flag fleet, foreign flag-U.S. owned vessels, allied ships, and other ships in the National Defense Reserve Fleet cannot provide the right number and types of ships on time during the early phases of mobilization. Therefore, it has been determined essential that a number of merchant ships under Government control be maintained in a state of advanced readiness at several locations. MARAD and Navy, in accord with DOD/Navy contingency requirements, have been building a Ready Reserve Force to meet the projected shortfall in surge shipping requirements. Funding for this program has been primarily in Navy appropriations from 1982 through 1988; however, beginning with FY 1989, the Administration proposes that RRF funding be authorized and appropriated to MARAD. A total appropriation request of $110,751,000 will enable us to maintain and activate the present group of ships and to acquire vessels for the RRF in order to reach the year end goal of 108 ships in 1989.

Of the total RRF funding request, $35,400,000 is for acquisition of additional ships in 1989. Overall RRF requirements are determined in accordance with DOD/Navy planning guidance which takes into account MARAD data on present and projected merchant ship availability from all sources measured against the sealift requirements of the various military services. The RRF has a current planning goal of 120 ships in 1992. Ships are added to the fleet through direct acquisition from commercial sources and upgrading of already owned Government vessels acquired through trade-ins under MARAD's 510(i) scrap program. Once ships are in the fleet, costs are incurred to maintain them at high readiness levels. The ships must meet requirements of the Coast Guard, American Bureau of Shipping, and other regulatory bodies. Forty-eight of the 93 vessels currently in the RRF will be outported at sites other than the three NDRF sites. Outported for strategic purposes, most of these ships incur additional commercial berthing costs. Maintenance and berthing costs for the RRF are estimated at $72,192,000 in 1989. The budget also provides $1,183,000 for one ship activation and deactivation which is necessary to test the ability of MARAD to meet the 5 or 10 day response for breaking out a vessel, conducting sea-trials and arriving at a designated port. Finally, $1,976,000 is requested to continue special programs related to the Ready Reserve Force.

OTHER FUND REQUESTS

In addition to the above major program and funding areas, we are requesting $1,850,000 for heating system renovations and other facility repairs at the U.S. Merchant Marine Academy (USMMA), $2,000,000 for continuation of the National Defense Reserve Fleet (NDRF) facilities program and $1,000,000 in additional funds for technical and program studies ($1,000,000).

Heating distribution systems at the USMMA need rehabilitation in order to assure reliable operation and fuel savings. The existing system is 45 years old and will have to be renovated. Further, waterfront piers and related electrical systems are badly in need of systematic rehabilitation as pilings deteriorate, bulkheads begin to break and electrical systems demand emergency, partial repairs.

The funds requested for the NDRF facilities are required to complete dredging and related mooring stakes and maintenance of the Beaumont mooring basin and levee, as well as provide a dockside crane at the James River, Virginia site. Funds appropriated for this program in 1987 and 1988 are sufficient to accomplish most of the dredging. The additional funds in 1989 are primarily for follow-on work required to keep the Beaumont site operational.

An additional $1,000,000 is required for technical and program studies to provide a $2,000,000 funding level for FY 89. This is sufficient for projects which the industry would not be expected to conduct, and from which the Government would expect significant benefit. These include efforts at reducing the cost of transporting cargo preference cargo, enhancing military sealift, improving maritime safety, addressing port development issues and supporting initiatives to increase the market share of U.S.-flag shipping. MARAD funding provides a firm support to several cooperative efforts between elements of the Navy, Coast Guard, National Transportation Safety

Board, National Research Council and industry. This is consistent with MARAD's role as the Government's catalyst in commercial shipping innovations.

ADDITIONAL PROVISIONS OF THE ADMINISTRATION'S BILL

Section 4 of the Administration's bill again requests that Title XI be phased out, reflecting the Administration's policy to limit the Government's intervention in the Nation's private lending market.

Section 5 of the Administration's bill would accommodate the aforementioned changes in commitments for State school graduates and permit funds in future years to be reprogrammed from the current student incentive payments program to increased direct payments to the schools.

Finally, Mr. Chairman, Section 6 of our draft bill would amend the bankruptcy code to clarify the secretary's authority under Pub. L. 99–509 to foreclose on a Title XI mortgage where the mortgagor is in bankruptcy. We are appreciative of the existing maritime bankruptcy code provisions sponsored by this committee, and are requesting continuance of these provisions and this clarifying amendment because of our difficulties with certain bankruptcy courts.

COMPARISON BETWEEN THE ADMINISTRATION'S PROPOSAL AND H.R. 4200

The House Bill (H.R. 4200) differs from the Administration's request in the amounts provided for Operating-Differential Subsidy, the State marine school program, research and development, and limitations on the Federal Ship Loan Guarantee Program (Title XI).

The House Bill provides funds of $300 million for the Operating-Differential Subsidy program, more than the $248.9 million we have requested under the current program and more than the $275,290,000 we would request if the Administration's reform proposal is enacted. In order to realize one of the goals of this program (reducing Government costs), the lesser amount should be authorized.

The House has added $2,000,000 for the State Marine Schools over the $8,000,000 we requested. The amount the Administration requests is sufficient for us to continue to assist the schools effectively. We urge you to support our request to phase out student incentive payments (SIPs) and use these funds to increase the direct payments to the schools. The Administration proposes that the State schools require all students in a merchant marine officer preparation program to pass the examination for issuance of a merchant marine officer license and to apply for and accept, if offered, a reserve commission as a condition for graduation.

As part of a more efficient use of Government resources, the Administration also proposes the sharing of school training ships. MARAD is now working on a collaborative plan with the schools to implement this proposal which should be completed by September 1988. MARAD has previously completed three draft feasibility studies on ship-sharing all of which are supportive. For these reasons, we oppose the House Merchant Marine Subcommittee amendment to H.R. 4200 which would delay the implementation of ship-sharing until at least 1991 and would require MARAD to conduct another feasibility study of ship-sharing.

The House Bill authorizes $2 million for Research and Development activities. The Research and Development appropriation was phased out in 1987 as the work being funded by this program was not research or development in the generally accepted sense of these terms. However, the technical and program studies funded by this appropriation were continued in the Operations and Training appropriation. The 1988 appropriation provided a $1,000,000 base and an additional $1,000,000 was requested in the 1989 budget. A separate authorization for these studies is not considered appropriate.

The Administration's proposal includes a provision clarifying and making permanent the authority of the Secretary to foreclose on a Title XI mortgage where the mortgagor is in bankruptcy. This provision would assist us in administering the Title XI Guarantee Program more efficiently. H.R. 4200 did not address this issue.

The House Merchant Marine Subcommittee adopted an amendment to H.R. 4200 during their mark-up which clarifies the authority of the Secretary to foreclose on a defaulted Title XI mortgage either before or after a debtor files for bankruptcy. However, the amendment did not include the provisions making the authority permanent or preventing a bankruptcy court from enjoining the Secretary's action.

Also, we are proposing eliminating all loan guarantee commitments beginning in 1989. The House Bill excludes guarantees, only until October 1, 1990, for certain inland waterway vessels, or offshore oil or gas exploration or development vessels. We are seeking to terminate all Federal interference with private credit markets resulting from Title XI.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or other members may have.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. We understand that in the last five years the Maritime Administration acquired over 650 vessels through foreclosure of Title XI loan guarantees, and is currently offering them for sale. MARAD clearly has a responsibility to the taxpayers to obtain the best possible return on this equipment. MARAD also must comply with the Congressional instruction that MARAD take into account "the need in the particular segment of the maritime industry for new or additional capacity, including any impact on existing equipment for which a guarantee under this title is in effect, "46 App. U.S.C., Section 1274(d)(1)(i). In the disposal of foreclosed equipment, how does MARAD harmonize these two objectives?

Answer. Although the Congressional instruction applies to new commitments, we do try to comply with this intent in our asset disposition program. MARAD tries to harmonize these apparently conflicting objectives in a number of ways. First, we try to reduce our holding costs and maintain our vessels to avoid forced sales of inventory at a time when the market cannot digest the additional assets. We have accomplished this by centralizing vessels at our reserve fleet facilities to the extent practicable and competitively bidding our other custodial arrangements.

Additionally, at the reserve fleet we use preservative and dehumidification techniques that preserve assets while reducing labor costs. For example, we have reduced holding costs on supply boats from over $1,100.00 per month to approximately $75.00 per month. Second, we extensively market for alternative uses.

For example, we have sold many supply vessels for use in the fishing industry and have had others converted to cargo carriers or for use in conjunction with military needs both for domestic and foreign application.

Finally, when we do sell a vessel back into its original market, we do it on an open, competitive basis and at a price we believe does not confer an undue economic advantage.

Question. In determining how to get the best possible return for the taxpayers on Title XI loans, what criteria does MARAD use in cases involving disposal of foreclosed equipment? What obstacles does MARAD face in getting the best return on these loans? In situations where MARAD is a creditor in bankruptcy proceedings, what are the implications of this legal role for MARAD in dealing with individuals or entities that have defaulted on Title XI loans?

Answer. The primary way of insuring the best return is through a widely advertised, open and competitive sales procedure. Our solicitation follows acquiring title through the foreclosure process. We continually monitor the marketplace, both internally and through independent studies. We do our best to contact potentially interested parties through mass mailings, advertisements in appropriate trade journals and periodicals and notification of brokers. We have also explored the use of brokers and auctioneers on an exclusive basis for certain equipment.

Obviously, in a bankruptcy situation, we cannot hold an open sale. Therefore, in those situations we do our best to insure that valuations are competitive and that the reorganization plan is equitable without confering an undue advantage on a debtor.

Question. In the Spring of 1986, you testified concerning, "unequal competition between companies in Chapter 11 bankruptcy and other operators in the industry." In that context, has MARAD disposal of foreclosed equipment ever resulted in this type of inequity? Are there ever any discrepancies between capital costs incurred by operators which have paid or are paying Title XI obligations, and capital costs incurred by persons buying foreclosed vessels from MARAD?

Your testimony also identified two problems associated with unequal capital costs: "allowing vessels to further depress markets by operating without any capital costs," and the possibility that operators who acquire equipment at low rates would be in a position to "cut rates to the detriment of their competitiors (which) adds to the threat to the continued viability of the nondefaulting Title XI companies?" Has MARAD disposal of foreclosed equipment ever resulted in either of these situations?

A similar situation could occur if MARAD does not foreclose on equipment, but accepts reorganization in bankruptcy on terms that result in lower capital costs for the new operator. Has this situation ever occurred?

Answer. The issue of undue competitive advantage being conferred on purchasers of foreclosed Title XI equipment only airses in those markets where MARAD controls assets of sufficient number or capacity to have an influence.

MARAD tries to deal with this issue in three ways: first, by insuring our sales procedure is open, well-advertised and with no constraints limiting the ability of even small operators to participate; second, by trying to equate the sale price to the book value of comparable assets held by nondefaulting owners; and, third, by attempting to sell to alternative markets.

In view of the above guidelines, we do not believe our asset sales have had a significant detrimental market impact. Although, an operator here or there may acquire lower cost assets, we believe the limited number and capacity of such assets sold has not influenced market pricing. As such, the particular operator would not depress the market by lowering its price but instead might gain a temporary profit increment.

In a bankruptcy situation MARAD tries to balance the often competing objectives of the debtor and creditors (including MARAD) by insuring valuations are fair, classes of creditors are treated equitably given their legal standing and the reorganized debtor does not receive undue advantage.

Question. When MARAD disposes of foreclosed equipment, what steps does it take to determine the impact of introduction of equipment into a given market? Does MARAD regularly conduct analysis of existing markets before disposal of equipment? We understand that MARAD has in some instances held equipment off the market in order to avoid overcapacity. What criteria has been used in making these decisions? Does MARAD have any formal policy that it follows in making these decisions?

Answer. MARAD continually monitors the market for the equipment it possesses or is likely to possess. Within the agency there is an Office of Trade Analysis and Insurance which is responsible for keeping abreast of market conditions. This information is supplied to the group responsible for the asset sales. The sales group itself is in constant contact with operators in the market thereby receiving the benefit of their counsel. Finally, MARAD commissions studies on a periodic basis to assess current and projected conditions in selected markets. This is used in evaluating the timing and potential recovery of asset sales.

MARAD uses this market information to evaluate assets on their competitiveness in projected markets. This, then, further defines the type of marketing for that piece of equipment. For example, older, shallow-water, non-cantilevered jack-up drilling rigs would be marketed primarily for scrap or alternative uses since our market analysis defines these units as non-competitive given current price projections and drilling trends. Therefore, minimal price appreciation is expected for these units. Therefore, we expend little funds for their maintenance and sell as soon as possible out of the drilling market. As such, there is no adverse market impact to our sale. A similar type of analysis is done for all segments where we believe our equipment sales would have a disruptive effect.

Question. During your confirmation hearings, you testified that on some occasions "domestic purchasers have been required to scrap older barges as a condition of MARAD sale". Under what conditions has this requirement been imposed? Does MARAD have any formal policy on this issue? What obstances has MARAD encountered in implementing this requirement?

Answer. As a condition to purchasing any inland river barges, MARAD has required the buyer to scrap or otherwise remove from service barges on a one-for-one basis. This policy has only been waived where the barges were being acquired by another governmental agency or where the sale was for an isolated barge. We have encountered no problem in implementing this policy.

In view of the recent strength in this market, MARAD is evaluating this policy with the thought of removing it. We have solicited the opinion of the barge operators and will consider their thoughts in reaching a decision.

Question. During your confirmation hearings, you also testified that "MARAD has embarked on a program to identify foreign markets that need and can use Mississippi River and domestic offshore service vessels to meet their transportation needs. MARAD intends to offer its own repossessed vessels to these potential buyers and to assist commercial interests in selling their existing equipment to these markets. MARAD hopes, by encouraging both foreign sales and scrapping, to reduce the level of excess equipment in the domestic market." What steps have been taken to implement this policy objective? What obstances has MARAD encountered? Has MARAD ever employed brokers or consultants to assist in this effort?

Answer. Marad has had meeting with several organizations (including brokers) interested in selling barges overseas. We have provided equipment lists to interested parties and have attempted to put buyers and sellers in touch with each other. However, although some sales by private sellers have occurred, this effort has not been particularly successful for MARAD equipment. The first major impediment has

been the cost of transporting equipment overseas which significantly reduces the purchase price. The second major impediment has been an inability to assume funding for the project. MARAD is not willing to hold notes of sales of this type.

Question. "The Government itself, particularly the Navy and Coast Guard, have substantial needs for vessels. What steps has MARAD taken to determine whether vessels in MARAD's possession would be useful for the Ready Reserve Fleet, or other Navy or Coast Guard operations? What obstacles has MARAD encountered?"

Answer. MARAD's technical staff conducts studies on various vessels in the National Defense Reserve Fleet and in their inventory of defaulted vessels to ascertain alternate uses for such vessels.

(a) Auxiliary crane ships.—Based on early studies both by the Navy and MARAD, the first six Auxiliary Cranes Ships were conversions of vessels turned into MARAD's Reserve Fleet. As you know, once a vessel is officially taken into the NDRF she is no longer eligible for commercial operations. This conversion program was so successful that Nany/MARAD purchased 5 more obsolete containerships as candidate vessels for T-ACS 7 through T-ACS 11.

(b) Aerostat M/V liberator.—The U.S. Coast Guard has a need for marine Aerostat platform for use in its anti-drug enforcement program. The Maritime Administration offered one of its vessels obtained under the foreclosure procedures of the Title XI program at a substantial cost reduction to the amount Coast Guard would have had to pay for the commercial conversion and charter method. MARAD will meet all USCG requirements to deliver a marine Aerostat platform completely modified, repaired, and outfitted at a substantial cost savings to the taxpayers and expects to reimburse the Title XI funds with some of funding provided by the Coast Guard.

(c) Offshore petroleum discharge system.—The Navy has a need to transfer fuel oil over the beach in support of its Rapid Development Forces. MARAD and Navy are coopeating in the conversion and reactivation of obsolete NDRF tankers into OPDS vessels. This project is being coordinated with the Navy staff, and regular meetings are held with MARAD/Navy RRF personnel to ensure conformance with Navy objectives using MARAD commercial ship construction experiences.

(d) Marsea fifteen.—This is one of the offshore supply vessels obtained by MARAD under the foreclosure procedures of the Title XI program. The Navy requested MARAD's help in installing special equipment on a test ship in preparation for the design and construction of a new oceanographic research vessel. MARAD, through its General Agency system and in-house technical staff, will have designed, converted, and operated the test vessel in only 9 months time.

(e) St. Lawrence Seaway Corporation.—Purchased several defaulted river hopper barges to replace their own worn-out dredge spoil disposal barges.

(f) MARAD has also sold a vessel to the Navy of Argentina and is having discussions with several other foreign governments, notably Venezuela, for vessel acquisitions.

The biggest impediment to sales of these types is the considerable effort that must be expended in coordinating with other agencies to ensure that they consider MARAD equipment, and coordinating with the Department of Justice in aggressively pursuing foreclosures.

An additional impediment is the other agencies' requirements on a cost benefit basis, as these commercially designed assets usually require extensive modification to meet the specific government agency's needs. Department of Defense continually looks to MARAD's foreclosures to satisfy its requirements for the Ready Reserve Force. Moreover, Department of Defense has looked to MARAD to provide assets to satisfy the U.S. Army's LSV Program and MSC tug requirements.

Senator BREAUX. With that, this panel will be excused, and we will welcome our next witness, who is our new Chairwoman of the Federal Maritime Commission, Ms. Elaine Chao.

Ms. Chao, we welcome you. This is your first appearance as Chairwoman of the FMC. We are delighted to have you here today and look forward to your statement.

STATEMENT OF HON. ELAINE L. CHAO, CHAIRMAN, FEDERAL MARITIME COMMISSION, ACCOMPANIED BY JAMES J. CAREY, VICE CHAIRMAN; AND ROBERT D. BOURGOIN, GENERAL COUNSEL

Ms. CHAO. Thank you, Mr. Chairman. It is a pleasure for me to be here this morning to discuss the FMC's authorization for Fiscal Year 1989.

I would like to submit my formal statement for the record and, with your permission, briefly summarize it.

Senator BREAUX. Without objection.

Ms. CHAO. Appearing with me today to assist in answering any questions are Vice Chairman James J. Carey and Robert D. Bourgoin, the Commission's General Counsel.

Mr. Chairman, the Commission is requesting an authorization of $15,150,000 for fiscal year 1989. This is an increase of about $1,565,000 over our last year's appropriation and will provide for a total of about 224 work-years of employment.

The major portion of this increase will permit the hiring of personnel to enhance our enforcement efforts and the continued implementation of a program to automate the filing, retrieval and analysis of ocean carriers' rates for the Commission.

The enactment of the Shipping Act of 1984, as you know, has caused the Commission to place a much greater emphasis on the enforcement of our shipping statutes. To meet these responsibilities, we have reorganized our enforcement and surveillance operations, have given all our investigators increased training, and integrated other staff elements into the enforcement effort. These efforts are already bearing fruit. For example, our recent success in dealing with trade malpractices in the North Atlantic trades has resulted in the collection of $2 million in settlements. In addition, the carriers involved were forced to establish an effective neutral body to internally police their own conduct.

The Commission has collected a total of about $3 million during Fiscal Year 1987, and in Fiscal Year 1988 to date, $1.1 million in fines and penalties has been collected. Another area in which the Commission has been and will continue to be very active is the combating of foreign government practices which create unfavorable conditions in our foreign trades. As a result of the Commission's intervention, it appears that U.S.-flag carriers serving Taiwan no longer face unreasonable restrictions on the ownership and operation of certain dockside equipment and facilities, and the ability to obtain terminal licenses. In addition, the Commission has successfully dealt with trade barriers in the U.S. trades with Colombia and Peru.

The Commission intends to continue, as well, its long-term efforts to implement its automated tariff filing system during Fiscal Year 1989.

As you noted at last year's authorization hearing, Mr. Chairman, the growing volume of hard copy paper tariffs filed at the Commission has made this automation effort crucial in facilitating the shipping public's access to and utilization of the tariff system. Also, it has become important in enhancing our own analysis, surveillance, enforcement, and trade monitoring efforts. During fiscal

year 1987, for example, the number of new tariff pages filed reached over 2,000 pages a day. It is clear that this automated system is needed more than ever.

The Commission is also continuing to collect and analyze data on the impact of the Shipping Act of 1984, which we must provide to an Advisory Commission in 1989 pursuant to the mandate of section 18 of the 1984 Act.

We are obtaining information from all segments of the ocean transportation industry and also consulting with other Federal agencies.

Mr. Chairman, I believe that our budget request will allow us to achieve our statutory responsibilities in FY 1989 with increased effectiveness and greater productivity. I therefore urge its favorable consideration.

If you have any questions at this time, I would be more than glad to answer them.

Senator BREAUX. Thank you, Ms. Chao, for your being here and for your statement.

In the trade bill, this Committee produced a portion of the trade bill dealing with foreign shipping practices, which was incorporated in the trade bill, which was vetoed this week. The Senate has not yet acted on the veto message.

The Federal Maritime Commission spoke favorably on that provision, as that it was an extra tool that would enable you to more aggressively seek fairer trade practices for the U.S. maritime industry.

What happens if the veto is not overridden, and the legislation dies?

What effect does it have on you if we don't have this provision enacted into law?

Ms. CHAO. During the past year, we have been fairly successful with our section 15 authority as well as our Section 19 authority.

Now clearly, the effectiveness of section 19 seems much greater in terms of its threat. However, we have used it in the past, and I think the Commission has shown that it has no hesitation in doing so.

It would be much more desirable to have a wider array of tools from which the Commission could choose to combat unfavorable conditions in our foreign trades. Nonetheless, I think we have utilized Section 15 and Section 19 very effectively.

Senator BREAUX. How many unfair trade allegations or cases currently are before the FMC for consideration?

Ms. CHAO. Section 15 or section 19?

Senator BREAUX. I guess both.

Ms. CHAO. May I ask my counsel to respond?

Senator BREAUX. Sure.

Mr. BOURGOIN. We have ongoing activity in Japan, Korea, Taiwan, Peru, and the PRC.

Senator BREAUX. The Taiwan case I take it has been closed?

Ms. CHAO. Yes.

Mr. BOURGOIN. Yes.

Ms. CHAO. We issued a section 15 order about a year and a half ago. There were a number of issues in that section 15 order. Two of those issues—the ownership and control of dockside equipment and

terminal leasing—have been resolved. The Commission met again on the remaining issues on May 11, and should be issuing its report shortly.

Senator BREAUX. You mentioned Peru, a Peruvian decree reserving 100 percent of the import and export cargo for Peruvian cargoes. They rescinded that decree, did they not?

Ms. CHAO. That's right.

Senator BREAUX. Do they still have a problem from the FMC perspective, however?

Ms. CHAO. There is still another concern. Although the 100 percent decree has been lifted, there is still a 50 percent decree, meaning that 50 percent of the cargoes must be carried on their national flag lines.

Senator BREAUX. That is all cargo, whether it is government cargo or some other cargo?

Ms. CHAO. Yes. My understanding—and I just asked before I came here—is that it apparently extends to both exports and imports. In the past, U.S. flag carriers have been accommodated in some way.

Senator BREAUX. Are we still actively pursuing the case with Peru?

Ms. CHAO. Yes.

Senator BREAUX. And with Colombia?

Ms. CHAO. No.

Senator BREAUX. Give me some information on the tariff automation situation. We have discussed it before. Where are you in implementing it? What do you expect after it is implemented, as far as improvement in services?

Ms. CHAO. Yesterday, the Federal Maritime Commission issued a press release saying that we have delayed the issuance of our RFP, which we had previously planned to release around June 10. The reason for the delay is to address some concerns raised by OMB, as well as by Congressman English's subcommittee.

Apparently the issue of concern is something called "remote retrieval." Under our system, we had envisioned that, if a carrier filed its own tariff, let's say in Seattle, it would be able to do so over the telephone lines in a process called "remote interactive filing." The carrier would be able to retrieve its own tariff over the telephone lines, and that process is "remote retrieval."

Apparently this is of concern to OMB and Congressman English because it might possibly compete with the activities of private tariff services. We are evaluating these concerns.

Senator BREAUX. Isn't that one of the big problems that the private information concerns are saying, that you are interfering in their business and stay out of it?

Ms. CHAO. Under our current system, direct access to tariffs is very limited by shippers. Inquiring parties would have to know exactly what tariff they are looking for and cite it by number.

In our proposed electronic system, they would also have to know exactly what tariff they want to view. They would be limited to accessing one tariff at a time, but could do so from outside Washington.

Senator BREAUX. Can you tell the Committee as to when you think you will have a final set of rules with regard to the automated tariff filing system?

Ms. CHAO. We are still committed to automating the whole system. It is just this particular issue that is holding us up at this point. I am optimistic that we can resolve this issue internally within the administration, and also with Congressman English's subcommittee. I imagine that we would have something out by August or September.

Senator BREAUX. There is great concern that, because of a large amount of over-tonnage worldwide in shipping, that we are seeing an increase in illegal rebating. Can the Commission elaborate on this better.

Ms. CHAO. In fiscal year 1987, we were very successful, and this is in large part due to former Chairman Hickey's efforts, in terms of uncovering malpractices and also taking very strong action in the North Atlantic trades. Under our innovative amnesty program, participating carriers had to pay $2 million, make detailed disclosures as their malpractices, and agree to establish a neutral policing body.

We will continue to monitor these trades. We are also monitoring carriers which are not part of the amnesty program, and we are also trying to verify the disclosure information that we receive.

We are looking at other trades. In particular, I think it is known that we will also be looking at the Pacific trades fairly closely.

Senator BREAUX. Thank you.

Does the Senator from Alaska have any questions?

Senator STEVENS. Are you considering remote access to your automated system?

Ms. CHAO. That was one aspect of the program. But the remote access that we are considering is very limited. We would allow carriers to access their own rates and other raw tariff information.

As of now, we are uncertain whether, under the OMB's and Congressman English's proposal, a carrier would even be able to access its own tariff rates.

Remote access is something that is very much part of the state of the art technology of automation these days, and we are therefore considering it as part of our proposed system.

Senator STEVENS. I know that you have just been down there for a short while, but what is FMC doing about the barriers to free trade that would affect your jurisdiction?

Have you gone into cultural or economic barriers? Do you have any programs to try, as you are dealing with these restrictions on access—you spoke about Taiwan, for instance, which has a restriction on access—which has had impact as an artificial barrier on trade.

Are we really exploring all the different types of barriers found in countries that we deal with?

Ms. CHAO. I think we certainly are. I say this with a bit of caution because I know the FMC has been suspected sometimes of being too close to the Executive agencies. I certainly do not believe so. I think that the FMC, as an independent regulatory body, makes its own decisions.

But, of course, on the issue that you raise, the FMC does work with Executive agencies to make sure that the efforts that are taken make sense from the point of view of large national policy. I think that we try to do that within reason.

Senator STEVENS. But independently, you only really deal with those barriers that affect the basic jurisdiction of the Commission, is that right?

Ms. CHAO. I'm not sure that I understand the question, sir.

Senator STEVENS. I am wondering about the relationship of the FMC to our overall goal of trying to reduce the foreign trade barriers of all sorts. The only ones that I have really seen articulated are like the problem of the Taiwan dock situation that you have gone into.

Have you gone further—that is what I am really saying? Are you really looking at the barriers?

Ms. CHAO. Yes. In fact, I have a whole list. As part of my preparation for this hearing, I asked for a list of the types of barriers in different countries. We have that, and I can supply it for the record, if you wish.

Senator STEVENS. I would like to see those. Yes, thank you.

[The following information was subsequently received for the record:]

RESTRICTIVE PRACTICES IN U.S./FAR EAST TRADES

TAIWAN

Restrictions on inland trucking operations (includes prohibitions on trucking licenses, registration of ownership of "chassis" and other trucking equipment, and use of "doubles" on Taiwan highways).

Allocation of certain cargo imported by the government to carriage on Taiwan-flag carriers (includes grain, tobacco and certain other specified bulk cargoes).

Limitations on the operation of a feeder vessel service by U.S.-flag carriers (includes reluctance to enter into longer contracts and other limits on growth and operation)

Preferential berthing practices at the Port of Keelung (includes preferential container storing practices).

Restrictions which prevent U.S.-flag carriers from soliciting other new carriers to the port to jointly use pier.

PRC

Restrictions on the ability of any foreign national or foreign-owned company to operate a branch office.

Restrictions on the ability of non-PRC ocean carriers to choose and appoint agents at PRC ports.

Restrictions on the ability of non-PRC carriers to perform shipping agent services.

Discriminatory charges for the use of port, terminal, or other facilities or equipment.

Restrictions on the ability of non-PRC carriers to establish rates and charges for their services, or to charge or collect rates set forth in tariffs filed with the FMC.

Restrictions on the ability of non-PRC carriers to serve particular ports or to operate feeder services between PRC ports and points in Japan or Hong Kong.

KOREA

Reservation to Korean nationals or Korean companies of transportation related businesses, especially shipping agency and freight forwarding services (prevents non-Korean carriers from acting as agents, selling or marketing shipping services, booking cargo, or providing warehousing.

Reservation to Korean nationals or companies of the trucking business (prevents non-Korean carriers from performing short-haul drayage from off-dock CY to pier as well as cargo pick-up or delivery within Korea).

Prohibition of land ownership by foreign nationals (prevents non-Korean carriers from owning container yards or other facilities).

Reservation to the Korean Government of the ownership and operation of port facilities, including on-dock CY & CFS.

Senator STEVENS. Thank you very much, Mr. Chairman.

Senator BREAUX. We discussed those barriers when we passed that section of the Trade Bill, all of the various things that other countries do to restrict our vessels in access to their ports and terminals. There is a whole slew of things from common practices to direct legislative efforts on behalf of their government.

You name it. It is on the list.

Tell us a little bit about service contracts. I know that you have proposed a final rulemaking on it.

Ms. CHAO. That is correct.

Senator BREAUX. There are some liners, obviously, that feel they are being used to really restrict common carriage operations, and they are being used in a manner that Congress never intended them to be used. Would you give us a little discussion on the final rulemaking and what is currently before the FMC.

Ms. CHAO. I think that the rulemaking that you are referring to was initiated in response to a petition by the Box Club concerning two service contract issues. One issue concerns most-favored-shipper clauses, and the second is the issue of de minimis liquidated damages.

The Commission declined to issue a proposed rule regarding the level of liquidated damages, but proposed a rule that would prohibit all kinds of most-favored-shipper clauses, except for those that are based on the contracting carrier's lowest rates.

The comment period on that proposed rule ended on May 3, 1988. Thirty-five comments have been received and we are in the process of evaluating them. I think that in light of our continuing review, there is not much more that I can say.

Senator BREAUX. Is that like to be a very narrow ruling that we are talking about, or is that going to address the whole broad issue of service contracts in general?

Ms. CHAO. The scope of the rule is limited by the issues raised by the petitioners. I would also like to say that your comments on the importance of service contracts has been noted. Certainly, your concern that service contracts not be used to circumvent the legislative intent of Congress is something we will consider very seriously.

Senator BREAUX. The effect on common carriage as opposed to service contracts, is something that, while we favor service contracts, we don't want them to be used contrary to the intent of the law.

There has been some concern raised, as I am sure your comments would indicate, that there has been some abusive use of service contracts. I am not certain whether or not that is correct.

I know that we are starting to hear some of the complaints. I guess my question is really whether the rulemaking will address the whole range of issues dealing with service contracts.

Ms. CHAO. Again, my counsel can elaborate.

Mr. BOURGOIN. This proposed rule would not, sir. It would only address the question of those most-favored-shipper clauses, which

are sometimes known as "Crazy Eddie" clauses. It proposes only to address those.

Senator BREAUX. They are the ones that say if one line has a contract, everybody else would have to match it, or they would have to match every other line's?

Mr. BOURGOIN. That's correct. As a contract signatory, if any carrier in a trade charges any lower rate under its contract or tariff to any other shipper in the trade, then the contracting shipper would have the right to either leave the contract or get that lower rate.

Senator BREAUX. That would not be addressed in this, or would it?

Mr. BOURGOIN. Yes, that would be addressed.

Senator BREAUX. Is there anything else pending that would address the general concept of service contracts before the Commission?

Mr. BOURGOIN. No. We completed a fairly extensive rulemaking at the end of last year, which went into all of the areas of service contracts. These are the only remaining significant issues.

Ms. CHAO. Would I also be correct in saying that the section 18 study will look into service contracts?

Mr. BOURGOIN. Yes.

Senator BREAUX. Those are all the questions that I have. We will have some additional questions to submit to you, and we would like your response in writing for the record.

Ms. CHAO. Absolutely.

Senator BREAUX. With that, thank you all for being here today.

Ms. CHAO. Thank you.

[The statement and questions and answers follow:]

STATEMENT OF HON. ELAINE L. CHAO, CHAIRMAN, FEDERAL MARITIME COMMISSION

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you to discuss the Federal Maritime Commission's authorization for fiscal year 1989.

With me today are Vice Chairman James J. Carey, and Robert D. Bourgoin, the Commission's General Counsel.

The Commission has requested an authorization of $15,150,000 and this amount has been included in the President's budget submitted to Congress. It will provide 224 workyears of employment and is an increase of $1,565,000 and eight workyears above our fiscal year 1988 appropriation. Included in this increase are: (1) $1,000,000 for the implementation and operation of an automated tariff filing system (ATFI); (2) $282,000 for eight additional workyears to enhance our enforcement efforts; (3) $20,000 for additional travel expenses related to enforcement; and (4) $263,000 for equipment and administrative expenses related to the section 18(a) study, and certain other administrative expenses. Our FY 1989 request represents a real increase of $415,000 or 3.05% over our $13,585,000 appropriation for FY 1988, if the additional funding for the tariff program and additional positions are excluded.

Among the Commission's accomplishments in fiscal year 1988 (which will be continued as major initiatives in the proposed budget for fiscal year 1989) is the Commission's stepped-up enforcement program. This program has been bolstered by an increased emphasis on organized intelligence gathering and in-depth investigative techniques by the Bureau of Investiations. All of our investigators have not attended or soon will attend the White Collar Crime Training Program at the Federal Law Enforcement Training Center in Glynoc, Georgia. The Commission's effectiveness in its enforcement activities has been further enhanced by stronger headquarters direction of the Commission's various district offices, and the establishment of a new district office in Houston, Texas.

As a result of these enforcement efforts, we have had some notable success in dealing with serious trade malpractices. The most significant accomplisment was the Trans-Atlantic Trade Initiative, which result in a series of disclosures of certain

trade malpractices, payment to the Commission of $2,000,000, and the establishment of a unique self-policing program for the group of carriers involved. The objectives of this initiative were to achieve compliance with the shipping acts and to bring about stability in the Trans-Atlantic Trades.

In addition to the payment received as a result of the Trans-Atlantic Initiative, the Commission also collected $1,029,000 in civil penalties during fiscal year 1987, for a total of $3,029,000 or approximately 25 percent of its FY 1987 appropriation, a significant increase over the amount collected in the previous fiscal year. To date, $1,114,976 in fines and penalties has been collected in fiscal year 1988.

In order to increase the Commission's overall monitoring and surveillance effectiveness and to continue to aggressively pursue violators of the shipping statutes, the Commission is requesting eight additional workyears related to the enforcement effort.

Fiscal year 1988 was the most active in the history of the Commission in identifying and correcting unfavorable conditions in the U.S.-foreign trades. The Commission issued orders to carriers in the U.S. trades with Japan, Korea, Taiwan and the People's Republic of China, soliciting information about the carrier's operations within those countries in an effort to identify foreign government trade restrictions that impact adversely on those operations. That information is in the process of being reviewed to determine whether action under section 19 of the Merchant Marine Act, 1920 is necessary in any of those trades.

In the case of Taiwan, the Commission issued a proposed rule under section 19 to adjust or meet certain unfavorable conditions. Prior to the expiration of the period for comment on the proposed rule, the Commission received a petition from Taiwan authorities representing that the dockside equipment and container terminal issues had been substantially resolved and asking the Commission to discontinue the proceedings. The affected U.S.-flag carriers also filed comments indicating that these two issues had been satisfactorily addressed. Based on the representations by all affected parties of a successful resolution of these issues, the Commission discontinued the proceedings on March 2, 1988.

In addition, foreign government trade barriers in Colombia and Peru were the subject of formal Commission proceedings initiated under section 19. The Colombia proceeding was discontinued when the Government of Colombia agreed to provide the complaining carrier access to cargo in the trade. In the Peru matter, the Commission issued a proposed rule followed by a final rule which would have suspended the tariffs of Peruvian-flag carriers in response to a Peruvian decree reserving 100 percent of import and export cargo for Peruvian carriers. Subsequently, the Government of Peru rescinded this decree. Currently, the Commission is reconsidering the final rule for purposes of determing whether the unfavorable conditions previously found will continue to exist under the current regime. The Commission is closely monitoring diplomatic efforts to resolve this controversy. These proceedings typify most section 19 actions, which, though frequently including a proposal of serious sanctions to combat the particular restrictive practices, have historically been terminated upon the foreign government's discontinuance of the offending practices.

The single largest increase in our 1989 budget is for implementation and operation of an Automated Tariff Filing and Information system. The number of hard-copy, paper tariffs filed at the Commission has steadily grown and this cumbersome volume of paper has slowed down essential Commission analysis and complicated the availability of rates to the shipping public.

For these reasons, over four years ago, the Commission decided that it would attempt to automate the tariff process. This project has been a long, and at times, difficult one as it involves a variety of industry and Government interests. In 1986, the Commission's private-sector study contractor concluded that such a system is feasible and an industry advisory committee agreed. In 1987, the Commission's private-sector contractors developed a cost-benefit analysis and a draft request for proposals for the new system. Again, the system appears to be both technologically and economically feasible, and there is little doubt that it will eliminate the Commission's paper problems.

During fiscal year 1987, the number of new tariff pages filed reached over 746,800 or over 2,000 pages a day. It is clear that an automated system is needed more than ever.

The Commission has identified problems and received suggestions on the particulars of the new system through a presolicitation conference with potential bidders and through a notice of inquiry proceeding involving the industry and government entities.

The amount of funds requested for fiscal year 1989, two million dollars, is intended to be committed for the first phases of the system's development and operation.

The $2,000,000 appears to be the minimum necessary to attract commercial bidders and to come up with a good system.

The system will not only substantially facilitate the shipping public's utilization of the tariff system, but will also greatly enhance the Commission's surveillance, enforcement, and trade monitoring efforts by providing reliable and accurate tariff information. Moreover, it will enable the Commission to more effectively collect and analyze information on increases and decreases in rate levels.

During FY 1987, the Commission's Bureau of Economic Analysis continued its preparation of the five-year study mandated by section 18 of the 1984 Act. Trade data is being collected through surveys and other methods, and procedures for analysis of the data are being developed and refined. These efforts, along with the preparation of the report required by section 18, will be a major Commission focus in fiscal year 1989. The Commission staff is continuing to consult regularly with other federal agencies and with various industry groups to ensure the accuracy and appropriateness of our efforts.

We respectfully request an authorization consistent with our budget request so that we may achieve our objectives in fiscal year 1989. We ask for your support of our efforts to carry out our important statutory responsibilities.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. 1. At last year's authorization hearing, I expressed concern that the implementation of an automated tariff system was long overdue and efforts to establish the system should be expedited.

Please outline the progress the FMC has made in the past year and the timetable for implementation.

Concern has been expressed by the private information industry that the proposed system would be in direct competition with the members of that industry. Furthermore, it is my understanding that OMB has tended to agree with the industry. However some shippers and freight forwarders argue that remote access system will be extremely beneficial to their industries.

Please comment on both viewpoints and explain where we are in the process with respect to this issue.

Answer. Over the past year, the Federal Maritime Commission has expedited the process of implementing an Automated Tariff Filing and Information System (ATFI). To insure that the effort was procedurally and technically correct, the Commission initially hired private sector firms to perform cost-benefit analyses and prepare a Request for Proposals (RFP).

As required by regulations, the first cost-benefit analysis was approved by the Commission and submitted to the Office of Management and Budget (OMB). Similarly, based partially on the fact that the Commission had made such an analysis, the General Services Administration delegated procurement authority to the Commission in December, 1987.

Also in December, the Commission instituted a Notice of Inquiry on the functionality of the proposed system. In this way, all interested persons were advised by public notice, published in the December 22, 1987 Federal Register supplemented by private mailings, regarding the specifics of the proposed system. All persons were requested to comment. This Notice of Inquiry proceeding was used for two reasons. First, in December, the House Subcommittee on Information, Justice and Agriculture expressed reservations regarding one aspect of the functionality of the proposed system. That aspect concerned "remote retrieval." Therefore, in order to insure that these and any other concerns would be raised and considered before the process moved on, the Commission chose the Notice of Inquiry route. Second, the Notice of Inquiry proceeding was also chosen since it was a natural progression of the open and deliberate manner followed by the Commission during the entire ATFI project. On April 12, 1988, after consideration of all the comments received in the inquiry proceeding, the Commission voted to issue its Report on Tariff Automation Inquiry. The Report, issued April 15th, noted that the Commission intended not to change the functionality of ATFI as based on the 1986 public Feasibility Study. These functions included the retention of "remove retrieval."

Also during this period, the staff, with the assistance of the Commission's contractors, completed work on a draft RFP and mailed the document to over 125 potential bidders. This draft RFP was the focus of a presolicitation conference sponsored by the Commission on April 28, 1988.

The draft RFP contains functional specifications, not model numbers and specific architectures, and it was considered in the Government's best interest to have the

proposal fully understood. At the conference, previously submitted vendor questions were answered in writing and further questions were answered orally. The conference attendees were advised that the Commission would attempt to issue a final RFP by June 10, 1988. This would have enabled a contract to be awarded before the end of fiscal year 1988. Funds for this purpose and also for the purchase of certain equipment had been approved in the Fiscal Year 1988 appropriation.

One day prior to the presolicitation conference, the Commission received a letter from Congressman English's Subcommittee; one day after the conference, a letter was received from OMB. While both letters generally supported the Commission's efforts in tariff automation, they also raised serious reservations about the retention of "remote retrieval" and OMB specifically urged the Commission to delete this function from the final RFP.

Because offerors must know exactly what the system's intended functionality will be, the Commission decided that it could not finalize the RFP while such matters remained in controversy. On May 25, 1988, the Commission announced in a press release that the RFP could not be issued until August or September, 1988, after these problems were resolved. This information was also communicated to over 180 potential offerors who were on the bidders list.

Due to this delay, a contract cannot be awarded in fiscal year 1988. Moreover, changes to the RFP resulting from the delay could, if substantial, result in another draft, rather than a final, RFP. This would further prolong the process of automating tariffs. Nevertheless, we remain hopeful that the Commission can award a contract in the first quarter of fiscal year 1989.

The Commission's schedule calls for design, development, and then, operation of a prototype, during the first year after contract award. If all goes well, full implementation would begin in the second year.

As far as users other than the Commission are concerned, the original specifications provide two basic ways of "getting into" the system: one, through terminals in the Commission's Washington, D.C., public reference room; the other, through telephone lines, via modem, i.e., "dial-up service." To date, the intended public-reference-room service has not been called into question but "dial-up service" is the function in dispute.

"Dial-up service" serves two basic functions: filing or retrieval (hence, "remote retrieval"). Remote retrieval is described in the October, 1986, Feasibility Study, as follows:

"FMC would also allow remote access whereby a member of the general public could access the automated tariff system from remote locations. For example, the system would enable a shipper on the West Coast to retrieve data from the automated tariff system using a terminal or microcomputer equipped with a device (i.e., a modem) to enable data communications over public telephone lines.

"However, members of the general public would only be able to perform relatively rudimentary retrievals, and essentially no analysis of the data. Specifically, members of the public would only be able to retrieve one tariff at a time, in its full format. To retrieve a tariff, the public user would have to specify the specific tariff of a particular carrier that is desired; the public user would not be able to search by keys (e.g., by route or commodity).

"FMC has imposed these restrictions based on a careful analysis of applicable federal policies and precedents. FMC does not want to compete with third-party services for the provision of sophisticated retrieval and analysis of tariff data for shippers, carriers, and others in the private market. * * * In the absence of tariff automation—i.e., the status quo—FMC will make available copies of tariffs to members of the public only if they can specify the particular tariff desired. A user fee is assessed for this service. FMS would not expand these services after tariff automation is implemented. However, . . . FMC would help ensure that third-party services can provide such services." [Pages IV-8 and 9.]

The Commission is not trying to compete with commercial firms. It does, however, want to ensure that the real customer—the shipping industry—can directly obtain the basic tariff data that it needs to compete. The Commission also believes that the shipping industry needs this rudimentary tariff information, quickly and economically.

Since 1986, FMC has not changed ATFI's intended functionality or self-imposed "restrictions." The Commission appreciates and understands that the "proposed system" has been considered in potential direct competition with the members of the private information industry. While the Commission is now exploring this concept, it must note that only one of the 16 tariff services, then operating at the Commission, challenged the remote retrieval feature in formal comments filed in the

Notice of Inquiry proceeding. Shipper representatives and freight forwarders have urged the Commission to retain the remote retrieval feature.

Remote retrieval (or, for that matter, "dial-up access") is not just one page that can be torn out of the RFP, leaving the balance of the specifications and functionality to be issued to potential bidders unchanged. The feature, as originally conceived, is inextricably woven into the cost tables of the RFP, as well as throughout other sections. Before the Commission can issue the next RFP, all such functionality issues must be completely resolved.

Technologically and economically, however, the deletion of any part of the remote retrieval function would not result in substantial savings. It is estimated that the deletion would involve a one-time savings of approximately $28,000 in equipment, and approximately $30,000 per year in connect time and storage charges.

The basic, marginal costs of "getting into" the system, therefore, would be borne by the user, by paying for telephone hookup and part of the computer connect charges. For the same reasons, "expansion" of the system to meet greater user demand would also be relatively inexpensive for the Government. With 25 "ports" for retrieval, however, plus a 50% expansion factor built into the contract, it is not likely that there would be much expansion in the one-tariff-at-a-time retrieval area and the Commission will continue to leave value-added services, as well as new products, for private sector development and marketing.

The Commission Feasibility Study Contractor also considered the idea of furnishing full-data-base tapes, as a service supplementary to on-line retrieval. The "tapes" would contain the complete, current, unprocessed data-base of tariff information for sale to requesters. "Tape" technology, as compared to "on-line retrieval" technology, is extremely fast and would enable the provision of tapes on a daily basis.

The full-data-base tapes would provide an opportunity for third-party vendors to acquire them, to add value by processing them, and to sell the enchanced product to their customers at a profit. For this reason, the Commission and the Feasibility Study Contractor originally included the idea in the specifications primarily for the value-added services. Of course, other entities in the shipping industry would have equal access to these tapes.

Question 2. Over the past year, the FMC has been very busy investigating possible discriminatory practices by several of our trading partners. Please review the various enforcement actions initiated by the Commission this past year.

Answer. The past year has indeed been an extremely active one in terms of Commission efforts to alleviate discriminatory practices in U.S.-foreign trades. In the period since March 1987, the Commission has taken action to investigate and/or alleviate unfavorable shipping conditions in U.S. trades with Taiwan, the Peoples Republic of China (PRC), Korea, Japan, Peru and Columbia. The following is a summary of Commission actions in these trades.

TAIWAN

On April 15, 1987, the Commission issued a section 15 order which sought information with regard to laws, practices and policies of Taiwan as they affected intermodal activities of non-Taiwan carriers serving the trade. Based on the responses to the section 15 order, the Commission selected two issues for expedited treatment: (1) restrictions on ownership and control of dockside equipment; and (2) restrictions on obtaining the license necessary to operate a container terminal. On December 8, 1987, the Commission, in FMC Docket No. 87-25, issued a proposed rule under section 19(1)(b) of the Merchant Marine Act, 1920 (Section 19) addressing these two issues. Following a successful resolution of these two issues, the Commission discontinued the proceeding on March 2, 1988. On May 11, 1988, the Commission met to consider other practices affecting shipping which were identified in the responses to the section 15 order. The section 15 inquiry in this trade is thus still open.

PEOPLE'S REPUBLIC OF CHINA

In 1987, the Commission also issued an order pursuant to section 15 of the 1984 Act, inquiring into shipping conditions in the U.S./PRC trade. The order sought information concerning PRC laws, regulations and policies which might unfairly burden the shipping operations of non-PRC-flag carriers. The order, among other things, specifically addressed restrictions on the ability of non-PRC carriers: (1) to operate a branch office; (2) to choose and appoint agents at PRC ports; (3) to perform shipping agent services; (4) to establish rates and charges for their services or to charge or collect rates set forth in tariffs filed with the FMC; and (5) to serve particular ports or to operate feeder services between PRC ports and ports in Japan or

Hong Kong. The responses from non-PRC carriers serving the trade are currently being analyzed by the Commission's staff.

KOREA

The 1987 section 15 inquiry also sought information as to the existence and effects of laws, regulations and policies of the Republic of Korea (ROK) on the ability of U.S.-flag and other non-ROK-flag ocean carriers to undertake ancillary maritime activities in the ROK. The section 15 order requested information on laws, rules, policies or administrative interpretations which prevent carriers from owning or operating their own facilities, or conducting specific shore-side shipping operations. The Commission was particularly concerned that non-ROK-flag carriers are required to operate through a Korean-owned general agent and are apparently unable to perform their own sales, marketing, contracting, warehousing, and trucking functions in the ROK.

The responses to the section 15 order show a complex pattern of legislation, regulations and administrative agency oversight consisting of 10 laws and 6 sets of implementing decrees which affect the transaction of maritime-related business activities in the ROK. The restrictions established in these laws and decrees unfairly burden non-ROK carriers and may result in conditions unfavorable to shipping in the trade by preserving certain business opportunities in the ROK for Korean nationals, effectively handicapping non-ROK international shipping lines in their competition with ROK-flag carriers.

The Departments of State and Transportation have engaged in consultations with representatives of the ROK Government regarding these issues on several occasions. The Agreed Minutes of the consultations held in May, 1987 reflect a number of commitments to permit greater freedom to conduct ancillary maritime activities in the ROK, at least to U.S.-flag carriers. To date, only the commitments to equalize the treatment of U.S.-flag and ROK-flag carriers in the use of terminal facilities at Pusan and to permit formation of an association to represent foreign steamship owners have been made effective.

The commitment to permit U.S.-flag carrier operation of branch offices in the ROK, to directly conduct a variety of business activites, requires legislative action and implementing regulations. We are informed by DOT that these necessary legislative changes may be expected during the current session of the newly-elected Korean legislature. On this basis, the Commission published its assessment of the responses to the section 15 order in a Federal Register Notice on March 31, 1988 (53 Fed. Reg. 10426) inviting comments and information to be submitted by July 15, 1988 and announcing the Commission's intention to reassess the need for action pursuant to Section 19 at that time.

Also with respect to Korea trade conditions, on March 16, 1988, the Commission received a Petition from Navios Management, Inc., d/b/a Pacific America Line, requesting the issuance of regulations to meet unfavorable conditions in the U.S./Korea trade, pursuant to Section 19. The petition alleges that ROK cargo preference laws reserve for ROK-flag ocean carriers 100% of all the steel products exported from Korea by water, subject to a waiver system, resulting in irreparable harm to the Petitioner.

The petition was published in the Federal Register and the Commission invited the submission of comments from interested parties. The Commission also requested the Department of State (DOS) to review the matter to determine whether the situation can be resolved through diplomatic channels.

The comment period expired May 17, 1988. Responses from DOS and from two Korean-flag carriers pointed out that negotiations between U.S. and Korean government officials resulted in a May 13, 1988 announcement from Korean maritime authorities that a percentage of Korea's steel product export trade would be freed for open competition in the near future. DOS indicated that it was informed that these changes would occur by July 1, 1988, and DOS and the other commenters accordingly requested an extension of the comment period to that date.

On June 3, the Commission issued an order enlarging the comment period to July 15, 1988, to allow time for the ROK to implement their new policy and for interested parties to comment on its effectuation. The Commission expressed cautious optimism that the announcement of a change in policy suggested the potential for a satisfactory resolution of this complaint as well as progess toward that end.

PERU

Following implementation of a Peruvian cargo reservation decree reserving 100 percent of Peruvian import and export cargoes for Peruvian-flag carriers, the Com-

mission initiated a proceeding pursuant to Section 19. The Commission requested comments from interested parties regarding conditions in the U.S./Peru trade, and requested the Department of State to intensify its efforts to resolve the situation. Subsequently, based on assurances from the Government of Peru (GOP) that its cargo reservation requirements, although in effect, would not be implemented, the Commission deferred Section 19 action for a six-month period, which expired February 27, 1987.

In April, 1987, the Commission issued a proposed rule (52 Fed. Reg. 11832, FMC Docket No. 87-6) which would have suspended the tariffs of Peruvian-flag carriers in the U.S./Peru trade unless those carriers received authorization from the Commission to participate in the trade. In May 1987, the U.S. and the GOP signed a Memorandum of Understanding (MOU) which dealt with third-flag carrier access to the U.S./Peru trade and the GOP subsequently issued regulations implementing the MOU.

Based on the comments of interested parties on the proposed rule and the GOP regulations implementing the MOU, the Commission issued a final rule in December, 1987, finding that conditions unfavorable to shipping exist in the U.S./Peru trade.

The Peruvian-flag carriers petitioned the Commission for reconsideration of the final rule, or, in the alternative, a stay of its effective date, on the ground that the GOP had, in January, 1988, rescinded decrees to which the Final Rule was directed. In February, 1988, the Commission determined to reconsider the final rule, insofar as the unfavorable conditions therein found to exist arose from certain laws and decrees which had been rescinded. The Commission further decided to continue the proceeding to determine whether the unfavorable conditions previously found continue to exist and whether some other disposition is warranted with respect to the final rule. Interested parties were asked to submit comments. Following withdrawal of the final rule, three agreements among Peruvian-flag carriers were concluded, approved by the GOP and filed with the Commission. Under these agreements, the Chilean-flag carriers will have the status of associate carriers. On June 2, 1988, following consideration of the most recent comments, the Commission determined that current conditions in the trade were subject to great uncertainty and the changes resulting from GOP action and the new carrier agreements were still unclear. The Commission therefore determined to hold the proceeding in abeyance until further order and requested interested parties to file additional information and comments on the developing conditions in the trade by August 31, 1988.

COLOMBIA

In response to a petition filed by O.N.E. Shipping, Ltd. alleging that the laws of Colombia prevented it from competing in the U.S./Colombia liquid bulk parcel tanker trade, the Commission issued a proposed rule under Section 19 in May, 1987. (FMC Docket No. 87-11). Subsequently, the U.S. and Colombia governments reached an agreement whereby the Government of Colombia provided O.N.E. free access to the unreserved portion of the liquid bulk trade and freedom to participate on the same terms and conditions as all other carriers, including Colombian-flag, in the carriage of unreserved cargoes. As a result, O.N.E. withdrew its petition and the Commission discontinued its proceeding in July, 1987.

Question 3. The North Atlantic Trades Amnesty program was an ambitious program undertaken to combat illegal practices by carriers.

Please comment on the success of that program as far as the overall effect of stabilizing that particular trade. Is there anything further that can be accomplished in the North Atlantic?

Are any amnesty programs anticipated in any of the other trades?

Answer. We consider the North Atlantic Amnesty Program to be a highly successful effort to enforce the provisions of the Shipping Act of 1984. It reflects the Commission's will to innovatively use its authority and, at the same time, it demonstrates flexibility to work with the industry to achieve stability in a trade.

Two caveats should precede any estimate of the stability (in this context, freedom from malpractices) in a specific trade: one, no trade is entirely free of malpractice, and two, estimates based on industry intelligence are imprecise and provide trends and indications, not facts. Nevertheless, at the time the amnesty program was announced, malpractices, principally rebates, appeared to be widespread. Several months later and continuing until the present, these violations have largely ended. Thus, we consider the trade to be "clean" at this time.

Regarding further regulatory action in the North Atlantic, several tasks must still be completed. Amnesty agreements were entered into with a number of conference and independent lines as well as some shippers. Investigations of carriers not

subject to the agreements continue. Information disclosed by carriers receiving amnesty must be evaluated and verified since amnesty is coextensive with disclosure; therefore, further enforcement action may be necessary. Finally, the Commission intends to maintain a continuing presence through future surveillance and regular meetings with officials of carriers and the independent enforcement authority. Pursuant to the amnesty agreement, the latter will police the trades for the next two to five years to insure that the present level of stability remains.

The Commission has not announced an amnesty program in any other trade at this time. However, the technique remains as an option to be used as conditions in a particular trade warrant.

Question 4. Carriers argue that the surge in service contracts has tended to depress rates and allow shippers to play one line against the other. Many observers of the industry also contend that service contracts are being used in a manner not intended by Congress in the Shipping Act, i.e. to replace common carriage which the Shipping Act reaffirmed.

I understand the FMC has a proposed Final Rulemaking pending on several issues involved with service contracts.

Please give the Committee some general background on these issues and the proposed timetable for completion of the rulemaking.

Answer. In response to a petition for rulemaking filed by the International Council for Containership Operators (ICCO), the Commission recently initiated a rulemaking proceeding that will address some of the issues presently being raised with regard to service contracts. Docket No. 88-7, *Service Contracts—"Most-Favored-Shipper" Provisions,* 53 Fed. Reg. 8775, March 17, 1988. ICCO had requested a rule that would prohibit: (1) all forms of so-called "most-favored-shipper" clauses and (2) the use of *de minimis* liquidated damages provisions for a shipper breach of its volume commitment under a service contract. The Commission declined to issue a proposed rule covering the latter issue, noting that even though it had the legal authority to prohibit the filing of spurious service contracts, circumstances did not presently warrant regulations at this time. Specifically, the Commission found that a very small number of service contracts contained what could be arguably considered to be questionable levels of liquidated damages, and that these could be dealt with on a case-by-case basis.

The proposed rule would allow ocean common carriers to offer service contracts that guarantee a signatory shipper the lowest rates published in the tariffs or service contract essential terms publications of the signatory carrier. However, all other forms of "most-favored-shipper" clauses (*e.g.* rates in other carriers' tariffs or service contracts or offers by other carriers) would be prohibited.

The Commission has received comments on the proposed rule from thirty-five interested parties. These comments are presently being analyzed by the Commission's staff and will be considered by the Commission in the near future.

Question 5. Over the past year, efforts have intensified to remove Japanese restrictions on the movement of high-cube containers on their highways. Also, negotiations have ensued to eliminate Sunday work restrictions.

What is the status of our efforts to remove these restrictions?

Answer. The Commission sought information concerning the use of high-cube containers in the U.S./Japan trade from 25 ocean carriers active in the trade through orders issued under section 15 of the Shipping Act of 1984, in order to assess the impact of laws, regulations and actions of the Government of Japan and to determine whether Commission action under Section 19 is warranted. The Commission's first section 15 order was followed by two supplemental section 15 orders seeking additional, current information on the movement of high-cube containers. Since the Commission initiated its inquiry, the Government of Japan has issued new guidelines relaxing the procedural requirements and burdensome paperwork associated with approval for movement of high-cube containers over roads within Japan; numerous additional routes on which the equipment may move have been approved; and one major Japanese-flag carrier has announced a major investment in high-cube containers for its own use. The carriers' responses to its most recent 15 order, as well as informal contacts with officials of the U.S.-flag carriers, indicate that the Japanese system of advance approval of routes and movements has loosened up a great deal and is functioning smoothly enough to allow the carriers satisfactory use of their high-cube equipment.

U.S. carrier operations in Japanese ports have also been facilitated by the recent authorization of some Sunday work at six major Japanese ports. Sunday work is still limited, however, to movements between ship and containeryard, performed for fully containerized vessels at full stevedoring rates.

Senator BREAUX. I would like to welcome back Admiral Walter Piotti of the United States Navy, Commander of the Military Sealift Command.

Admiral, we are glad to have you. Welcome back to the Committee.

We are pleased to receive your testimony.

STATEMENT OF VICE ADM. WALTER T. PIOTTI, JR., COMMANDER, MILITARY SEALIFT COMMAND, DEPARTMENT OF THE NAVY

Admiral PIOTTI. Mr. Chairman, I have a prepared statement and, with your permission, I would like to submit it for the record.

Senator BREAUX. Without objection.

Admiral PIOTTI. I will use my time to provide you with a summation.

As the Department of Defense single manager operating agency for ocean transportation, the Military Sealift Command is dependent on the U.S. maritime industry-ships, people, and industrial base, to successfully carry out the majority of its missions, both during peacetime and wartime.

Four years ago, strategic sealift joined the long-standing Navy functions of sea control and power projection as its third function. This was as a result of recognition that the national strategy was unexecutable without it. In addition to its sealift mission, MSC is globally engaged in two other missions. Thirty-nine direct fleet support ships provide fuel, ammunition, food, and supplies, as well as towing services and ocean surveillance for our worldwide deployed combatant forces at sea.

MSC's special mission support force of 22 ships conducts ocean survey, research, cable, and other support for the diverse variety of our Nation's worldwide commitment.

The transportation of cargo is, of course, the principal concern of this Committee today. MSC currently employes 55 U.S. flag merchant ships under long-term contract in the point-to-point carriage of cargo to meet government peacetime ocean transportation and prepositioning requirements.

This is in addition to the significant cargo tonnage booked daily under MSC liner agreements with almost every U.S. flag liner operator.

The national strategy mandates that strategic sealift have the capacity to deploy and sustain military forces worldwide whenever and wherever needed, as rapidly and for as long as operational requirements dictate.

The essentiality of this requirement demands national resolve, for the fragile peace the world enjoys today is capable of eruption at any time. This Nation's global commitments will retain it at the forefront of any struggle to maintain world peace.

History and recent events continue to reflect that naval and maritime forces are most often the forces called upon, or, in other words, the forces of choice.

Today's military forces are better trained, better equipped, and are in a more improved state of readiness than at any time in the past four decades.

Our Navy is ready now to respond to any crisis. Over 95 percent of the dry cargo and 99 percent of the petroleum needed to support our forces in crisis, contingency, or war, must be lifted by sea. Thus, our Nation's current ability to execute its national strategy is degraded by the declining condition of our maritime industry.

To help offset these shortfalls, the Navy has initiated several sealift enhancement programs, which, I would hasten to emphasize, are near-term supplements, rather than final solutions, to existing and projected shortfalls. Only a healthy and viable U.S. merchant marine, with ships adequate in number and type, manned by properly trained U.S. mariners and fully supported by a U.S. industrial base, will ensure a maritime force adequate to our national need.

This hemorrhage of our maritime heritage and national requirement demands the earliest resolve.

I thank you, Mr. Chairman.

At this time, I would be glad to answer any questions that you or Senator Stevens have.

Senator BREAUX. Thank you, Admiral, for being with us.

I think you really hit the nail on the head about some of the statistics that we are looking at in this country.

The questions that I asked John Gaughan earlier point out that 40 of our 42 allies, of course, are overseas, and a half million dead weight ton shortfall on numbers and types of ships is projected after 1992. We're talking about similar shortfalls in our tanker inventory. You point out that that projected shortfall will grow to 35 handy-size equivalent tankers during that same period. And the break-bulk ships, which are really very adaptable to the transportation of traditional military cargo are too expensive to operate in the commercial lines now and are being phased out of commercial operations.

All of that really just adds to the seriousness of the problem.

I guess the question that I have is were we to have a healthy U.S. merchant fleet, would substantially less money have to be spent on our Ready Reserve Fleet and the NDRF type of programs?

I know you cannot eliminate it because the ships are not necessarily compatible, as you point out. But we are going to have to spend some money if we are going to do something about the condition of the merchant marine fleet.

It has always been a concern for OMB. I have always tried to explain to them that you are spending a lot of money with RRF and NDRF, and you would have some savings there if we had a healthy fleet.

Can you give us any kind of discussion on that?

Admiral PIOTTI. The simple answer is yes.

There would be a reduction in the need for the size of the present RRF. You would only be required to retain those ships that have a unique capability as dictated by the national strategy and translated into the defense strategy. Some of the ships which immediately come to mind, of course, are the auxiliary crane ships. The economical or commercially viable container ships are non-self-sustaining. So these crane ships are necessary to augment that capability, to make them militarily useful.

Hospital ships and other ships that don't have any commercial viability would have to be retained. But that is a much reduced fleet.

If we had a commercial fleet of 600 to 650 ships that was active vis-a-vis the present 450–500 ship U.S. flag fleet, of which only 375 or so are active, we could sustain the military requirement with the addition of a very small Ready Reserve Force.

Of course, when you take a look at the financial implications of that, there would have to be an increase in the ODS package that has been proposed in order to account for those additional active ships.

I think, when you take a look at it in terms of cost, the ODS per ship per year is about $3 million in round numbers. In the case of a Ready Reserve ship, the numbers spin out to something like $5.4 million per hull for acquisition and about $700,000.00 per year for its maintenance.

Senator BREAUX. From a military perspective, how serious is the shortfall of not having a sufficient number of vessels to make up a healthy U.S. merchant marine commercial fleet? How much of a potential danger or concern is that lack of a healthy merchant fleet to U.S. military personnel?

Admiral PIOTTI. I will answer you in very general terms so that we don't have to go into closed session.

The shortfall that we have now projected into the future says that we cannot satisfy our world wide aggregate sealift requirements in a timely manner.

Senator BREAUX. What would be an optimum period?

Admiral PIOTTI. Well, of course, any warfighting commander wants the equipment there as soon as the balloon goes up. Run out over time, the need for unit equipment occurs immediately—the heavy equipment, the heavy, mechanized equipment needed to support the army. That takes place within the first 30 days. Subsequently, the operation becomes one of sustainment and hence resupply.

The optimum is to be able to meet the time line requirements spelled out in all of the individual global war plans in each of these phases.

We have recently made gains on achieving those requirements through the use of programs that I have mentioned in general—with the maritime pre-positioning ships and the afloat pre-positioning ships both of which place equipment within the theaters that it is most likely to be used in.

Senator BREAUX. Even if we had a healthy merchant marine—and I guess your statement points that out—you would have a need for certain ships for military lift purposes that would not be in a healthy commercial fleet because of containerization and different types of ships.

What are your thoughts, if any, regarding some proposals that I have heard along the lines of having the Navy build and own, but charter, ships to the commercial industry?

Admiral PIOTTI. The procure and charter program is what you are referring to, isn't it? The reason that I ask the question is because people use "build and charter" and "procure and charter" interchangeably, and they are really not.

The procure and charter program would build 12 ships per year at a cost of about $1 billion. Everybody involved in such a program would have to recognize at the outset that the program would not be self sustaining but would operate at a loss because the cost of construction could not be recouped in the charter of those vessels. They would just be commercially cost prohibitive.

So, if we recognize that, and if it is in the country's national interest, then we should proceed with this caveat fully understood.

What it does is ensure that there is a commercial-industrial base within this country. I think the health of the combatant ship industrial base will be sustained to construct and repair combatants for the foreseeable future. It is the industrial base for commercial ships in which we see a decline.

Senator BREAUX. From a feasibility standpoint, it is possible in your opinion, but there is a cost factor associated with it?

Admiral PIOTTI. There are several cost factors involved. One is the cost of including military features, then there is the increase in capital costs plus there is the loss in revenue that would accrue to whoever the operator was, as a result of these military features. In addition I'm sure there are other cost factors.

Senator BREAUX. The Senator who will have to supply the money for it is here.

Senator Stevens, do you have any questions?

Senator STEVENS. We have belabored that build and charter thing several times, and I had a fund actually reserved for it in the defense budget. But I didn't find any support, really, from the industry itself.

Do you still perceive a need for that type of endeavor?

Admiral PIOTTI. You switched to "build and charter."

Senator STEVENS. Yes.

Admiral PIOTTI. Build and charter is a program which, of course, the Military Sealift Command has used in the past. We have the MPS ships, which were, in fact, a build and charter program.

Senator STEVENS. Wasn't the Mariner Fund Program in the Eisenhower Administration a build and charter program?

Admiral PIOTTI. I can't answer definitively. I would like to answer that for the record, if I might.

[The following information was subsequently received for the record:]

I believe the program you are referring to is the Mariner Program, which was instituted during the Eisenhower Administration under Title VII, Marchant Marine Act, 1936 and Public Law 911. In keeping with the Merchant Marine Act of 1936, which stipulates that the Merchant Marine shall be capable of serving as a naval and military auxiliary in time of war or national emergency, MarAd and the Navy Department coordinated the development of the Mariner design. The Mariner was a large 21 knot breakbulk cargo ship used for military operation during the Korean War.

In FY 1951 and 1952, MarAd awarded contracts for the construction of 35 Mariners. The first vessels were delivered in FY 1953, the last in FY 1956. The majority of the vessels were operated by the Military Sea Transportation Service, later renamed the Military Sealift Command, and saw service in the Korean War. After the war, MarAd sold the ships to commercial U.S.-flag operators. This allowed the maritime industry to obtain competitive next generation fast cargo ships and replace their slower, smaller WWII ships.

Admiral PIOTTI. The T-5 tanker program that we have is also a build and charter.

In total, MSC now operates a total of 27 ships built under a build and charter type of arrangement.

Senator STEVENS. We started that in reverse, and in this year's defense bill, there is an authorization for the Navy to charter six tankers if they are built by the private sector.

Are you familiar with that?

Admiral PIOTTI. Yes, I am.

Senator STEVENS. Is there a need for those tankers now?

Admiral PIOTTI. The bill's call out of tankers has as a basis, the fact that the first class of ships within MSC that will need replacement is our present sealift tankers, the ships that we are using in the Persian Gulf and in domestic trade. There are nine of these ships. They are scheduled for replacement in the mid-1990s, which means replacement construction should begin by 1992 with the building extending over a three year period. This means now is about the proper time to commence the design study to determine the numbers and size of the required replacement tankers.

These replacement tankers would be employed either as consol tankers for battle groups, or for point-to-point carriage for the Strategic Petroleum Reserves, and to resupply to defense fuel stocks throughout the world.

The program number of six resulted from the belief that a tanker size of about 40,000 dead weight tons, vis-a-vis the current 25,000 dead weight ton size would best suit future MSC needs.

Thus, with a replacement size ratio of two for three, the current nine tankers would be replaced by the six larger ships.

The earliest that we would commence construction on replacement ships is, as I have said, 1992, based on economics. The current cost to MSC of the sealift tankers is about $15,000 a day. Replacement tankers, with their military features, would run anywhere from $30,000 to $40,000 a day.

Thus, until we reach the useful end-of-life of the sealift ships, it does not make economic sense to retire them prematurely.

Senator STEVENS. I am quite concerned about this. I see Alaskan oil being shipped south to refiners in California, to be refined into the jet fuel used by the Navy. It is then put on tankers, taken down to San Diego, and put on naval vessels that come back up and operate primarily north of the Aleutian chain. Then they go back down to San Diego to get refueled, to get the Alaskan oil that is sent down there.

I think that the distribution pattern of naval fuel resupply makes about as much sense as a Rube Goldberg cartoon.

The resupply of the Persian Gulf is an interesting thing, too. We are over there to protect oil that is being shipped out to Japan.

Do you know where we are getting the oil now for the Persian Gulf operation?

Admiral PIOTTI. Yes, I do. It is coming out of Kuwait.

Senator STEVENS. That's right.

That is a very interesting pattern. In that instance, they are getting it right close to the zone of operation.

I would like to get into one other thing. Do you believe we have a shortage now of trained mariners for future operations?

Admiral PIOTTI. Yes, I do.

The Navy conducted a study two years ago, which reflects that we have an initial shortfall of 6,000 trained mariners, and a sustaining shortfall of 8,000 trained mariners.

Senator STEVENS. Is that officers, crews? What is it?

Admiral PIOTTI. It's both—licensed and unlicensed.

Senator STEVENS. What would you think of a provision that would require the graduates of the State maritime academies to accept commissions for mariner service if tendered to them?

Admiral PIOTTI. The Navy was not initially queried on that provision before the proposal went forward. But I support the administration position, understanding that the navy would select those it wishes to offer commissions, and that all graduates will maintain a valid merchant license and those who are offered commissions will be required to accept them. Further, that in execution we will operate as we have done in the past—employ these people where we most need them, whether that be in the military or the merchant marine—wherever the country's need is greatest in time of contingency or war.

I believe, with the existing mariner shortfall, we should be able to satisfy our Naval officer requirements from other sources, but we would be hard-pressed to find other sources of trained mariners for the merchant marine.

Senator STEVENS. Currently, they are not required to accept a mariner commission, are they? They are not required to come forward with that? I am talking about State academies, now.

Admiral PIOTTI. That is true, sir.

Being a graduate of one of the state academies, I came in under a different program. A program which required you to accept a commission of offered.

The rules have changed significantly since then, and each one of the academies is a little bit different. Since you will have the superintendents and the presidents up next, I will let them address it.

I know that when I graduated I was required to obtain a license, get a degree, and accept a commission as a Naval reserve member. But, as I have said, the programs have changed over the past 30 years significantly.

Senator STEVENS. Thank you, Mr. Chairman.

Senator BREAUX. Let me just ask one final question, Admiral.

The condition of the merchant fleet, as you have heard John Gaughan testify, is not very promising or encouraging at all.

One of the parts of our government that is going to be very seriously affected by this commercial deterioration in the private sector is the Navy. As we battle to decide what to do with the commercial merchant marine to improve it in order that we can be of help in times of national emergency to the Navy, in particular, yet the Navy really has never been involved, that I know of, in coming up with help, assistance, proposals, maybe because no one has asked. The Navy has not been at the table trying to come up with some proposed solutions to be of assistance to the commercial merchant marine. Yet, the deterioration is having a very direct effect on your operations.

Could you comment on that?

Should you be involved in trying to come up with some proposed solutions for assistance to the U.S. merchant marine industry because, if it continues to deteriorate?

Admiral PIOTTI. I think we have been involved, and that involvement is spread across the entire spectrum of the U.S. merchant industry. From the period 1982 to the present, we have put $5.5 billion into the commercial sector through the conversion of ships at U.S. shipyards. All of the money that went into the procurement and conversion of those ships flowed to the U.S. maritime industry.

We developed sea sheds and flat racks, modular delivery systems, cargo over-the-shore systems, and off-shore petroleum systems. All of that was of benefit the U.S. maritime industry.

In addition, we went from 107 Government-owned ships in the carriage of cargo to the charter of 53 commercial ships, and we book all of our cargo on U.S. flag ships, except where none are available or their schedules will not meet the required delivery date (RDD).

Foreign carriage represented only 2.6 percent of the 9 million tons of dry cargo we shipped during FY 87 and about 7 percent of the 10 million long tons of fuel we shipped for the Department of Defense.

So the Navy has done a very significant bit in promoting and sustaining the U.S. maritime industry.

We work very closely with the Maritime Administration in ensuring that, while they are the advocacy organization and the executive agency which acts in the government's maritime interest, we, in our every program, consider what impact our actions will have on the U.S. maritime industry.

In doing so, wherever possible, we have shifted from government to commercial application.

Senator BREAUX. That is a good response.

I guess what I was thinking of, moreso than utilization of commercial when you can—and that is very important; it is a big contribution—I guess I was thinking in terms of our sitting down at the table and trying to provide some suggestions and assistance as to what is needed. In addition, just as the Navy is utilizing and developing some new systems and some new technology, which is very important, to try to help with some kind of program developments for whatever we should be doing as a government.

You know, we are just wrestling with this legislation, trying to come up with something that will guarantee that we have a viable merchant marine that will serve the Navy and the military in terms of national emergency.

Admiral PIOTTI. In the area of policy and the like, there are two initiatives the Navy originated.

Two years ago, the Navy started drafting a national sealift policy, to be promulgated by the National Security Council. This policy would use, as its base, the 1936 act, but put teeth into it. We believe the 1936 act to be adequate but that it suffers in execution, not in content.

We have also, this past week inaugurated, under the National Defense Transportation Association [NDTA], a Sealift Committee, as a companion to the NDTA Airlift Committee. Its members are top representatives from the maritime industries—presidents and

CEOs—it was established to provide a common forum to get at the problems that exist in the maritime industry and to counteract the divisiveness that exists within the industry.

I think that those are steps in the right direction.

Senator BREAUX. I agree with that. I am very glad to hear that.

If there are no other questions, Admiral, you will be excused.

[The statement follows:]

STATEMENT OF VICE ADM. WALTER T. PIOTTI, JR., USN

Mr. Chairman, members of the Subcommittee on Merchant Marine of the Senate Committee on Commerce, Science, and Transportation. I am pleased to have the opportunity to participate in this hearing on the administration's proposal to authorize appropriations for Fiscal Year 89 for certain maritime programs of the Department of Transportation and the Federal Maritime Commission.

Since 1949, the Military Sealift Command has been the single manager operating agency for ocean transportation (Sealift) within the Department of Defense. Fulfilling that mission is dependent on a healthy, efficient merchant marine, and we bring to this hearing a vital interest in the authorizations for maritime programs under your consideration. These programs are essential to the Military Sealift Command in its mission to provide strategic sealift for the Department of Defense in peace and war. MSC is dependent on the necessary U.S. maritime industry ships, people and industrial facilities being readily available at all times in order to successfully carry out its taskings.

To understand the close working relationship between the U.S. Navy's Military Sealift Command and the U.S. maritime industry, it is necessary to understand the way MSC carries out its mission.

The Military Sealift Command is charged with the responsibility to move the vast majority of all materiel and supplies required by our armed forces in peace and war. The U.S.-flag merchant marine is indispensable to the fulfillment of this mission: All peacetime cargo and the majority of the wartime cargo is carried by commercial shipping.

Strategic sealift is of such importance to this nation's defense strategy that in March of 1984, it was incorporated as the third function of the Navy, joining the longstanding functions of sea control and power projection.

In addition to strategic sealift, MSC is engaged worldwide in two other primary missions:

Direct fleet support—MSC's Naval Fleet Auxiliary Force of 39 ships provides fuel, ammunition, food, supplies, spare parts, towing services and ocean surveillance to combat ships at sea.

Special Mission Support Force—22 ocean survey, research, cable, and other ships support a diverse variety of worldwide Navy operations.

The transportation of cargo—strategic sealift—is the MSC mission of principle concern to this committee. Strategic sealift is almost solely dependent on a viable U.S. Merchant Marine. In conducting our sealift mission, MSC currently employs 60 contract ships in point-to-point carriage to meet military and other government peacetime ocean transportation requirements. In addition, MSC also books significant cargo tonnage on regularly scheduled liner ships.

Strategic sealift requires the capacity to deploy and sustain military forces whenever and wherever needed—as rapidly and for as long as operational requirements dictate. This requirement demands national commitment and is especially vital in today's world where the fragile peace we now enjoy is capable of spontaneous eruption at any time—where the forces of this nation will remain in the forefront of every struggle to maintain world peace. Recent history has demonstrated that when trouble erupts, naval and maritime forces have become the forces of choice.

Events in the Persian Gulf are but the latest reminder that this nation, with its global concerns and commitments, relies most heavily on its seapower—both naval and maritime forces—to defend its global interests.

Today's military forces are in an improved state of readiness. They are better manned, more alert, better trained and more capable of response than at any time in the recent past.

Our Navy is in first-rate condition, with more and better ships, with far better logistical support and a quality of personnel that is unmatched anywhere, at any time.

The U.S. Navy stands ready and capable of responding to any crisis or contingency that may erupt anywhere in the world. Our ability to respond—particularly to a

sustained contingency—is dependent upon the strength and readiness of a strong merchant marine. More than 95 percent of dry cargo and 99 percent of petroleum, oil and lubricants required to support our forces must be carried by merchant ships. Thus, the nation's overall ability to carry out the national strategy is inextricably linked to the strength of our maritime industry.

Forty of our 42 allies are overseas, and a ½-million deadweight ton shortfall in numbers and types of ships is projected after 1992. Similar shortfalls exist in our tanker inventory where the projected shortfall to meet military requirements will grow to 35 handy-size equivalent tankers during the same period.

The decline of our merchant marine is the result of a worldwide excess of tonnage, compounded by high U.S. construction and operating costs, and foreign protectionist measures. At the end of World War II, the United States had the strongest maritime fleet in the world—about 5,000 ships. Today, we have fewer than 500 ships and about 100 of those are laid up. This is a number marginally inadequate to support the national defense.

The containerization of cargo and the construction of more commercially viable larger ships have also influenced strategic sealift readiness. These larger ships cannot gain access to some militarily required ports, and much of our outsized military cargo—particularly unit surge equipment—does not lend itself to containerization. Breakbulk ships—the traditional military cargo transports which were totally compatible with military equipment—are too expensive to operate and are being phased out of commercial operations.

Thus, not only are we faced with a sharp decline in the number of U.S.-flag merchant ships and crews, we also must contend with a pronounced shift toward commercially competitive but less militarily useful ships.

To help offset this lack of adequate numbers of militarily useful ships in the merchant fleet, the Navy has initiated several sealift enhancement programs. I hasten to emphasize that these programs are near-term supplements rather than final solutions to existing shortfalls in merchant ships and manpower.

The overall problem of our declining U.S. flag merchant marine requires a rapid and broad approach. This nation enjoys a long and proud maritime heritage. It is my hope that this subcommittee and other congressional committees will work toward bringing about a prompt, efficient and cost-effective reversal to the decline of the U.S. merchant marine.

Senator BREAUX. I would like now to welcome our academies' representatives: Rear Admiral Floyd H. Miller, President of the State University of New York Maritime Academy, who is accompanied by his colleagues, representing the other academies.

Gentlemen, if you will take your seats, we are pleased to have you with us today.

Admiral, as I understand it, your testimony will be on behalf of you and all of your colleagues. We are pleased to receive it.

STATEMENT OF REAR ADM. FLOYD H. MILLER (RET.), PRESIDENT, STATE UNIVERSITY OF NEW YORK MARITIME ACADEMY; ACCOMPANIED BY REAR ADM. JOHN AYLMER, USMS, PRESIDENT, MASSACHUSETTS MARITIME ACADEMY; REAR ADM. JAMES F. McNULTY, USMS, SUPERINTENDENT, GREAT LAKES MARITIME COLLEGE; WILLIAM J. MERRELL, PRESIDENT, TEXAS MARITIME ACADEMY; AND CAPT. LEONARD TYLER, VICE PRESIDENT FOR EXTERNAL SERVICES, MAINE MARITIME ACADEMY

Admiral MILLER. That's correct, Senator Breaux.

I am Admiral Miller from New York Maritime, and I will be speaking on behalf of the State maritime academy superintendents and presidents.

With me today are Admiral Aylmer, from Massachusetts; Admiral McNulty, from the Great Lakes region; Dr. Merrell, from Texas; and Captain Tyler, who is representing President Curtis from Maine.

Admiral Ekelund, from California, was unable to make it.

We have submitted our written testimony for the record, and I would like to summarize it here today.

Before testifying, Mr. Chairman, we would like to express our appreciation to this subcommittee for the support over the years, especially the last two years, when the Office of Management and Budget and the Maritime Administration proposed to essentially eliminate Federal funding for the State maritime academies, as well as the layup of our training ships.

This year, OMB and MarAd have proposed to provide $8 million in funding, albeit 33 percent less than we received three years ago, funding that has so many conditions attached that it is, in our view, the same proposal as in the last two years. They simply want to shut down the cost-effective State maritime academies.

The proposals this year are made with no study, are more costly—and I emphasize that, are made with no study and are more costly. The conditions set forth for funding are, as you heard earlier, that we must commence ship-sharing by 1989; to graduate, all cadets or students must accept a Naval Reserve commission, if offered, and pass the license exam.

These proposals, we believe, clearly exceed the authority of the appropriations process and encroach upon the jurisdiction of the authorizing Committees to establish a policy and program framework.

The proposed language also changes the application of existing law.

We are here to seek a companion bill to House Bill H.R. 4200, which provides adequate funding of $10 million, requires a cost effective and feasibility study of ship-sharing, and disallows the other conditions contained in the President's budget.

By MarAd's own admission, in their ship-sharing ad hoc studies, which Mr. Gaughan noted earlier, it is more costly. The costs range from $12 million to $14 million, to operate a Federally operated fleet of training ships.

Presently, it only costs $7 million for a State operated fleet. MarAd's costs are all speculative and should be addressed in a feasibility study.

MarAd, however, is presently conducting an implementation study. Any good businessman making a major change such as this would certainly study its feasibility before implementation, especially in regard to cost effectiveness.

An appendix with ship-sharing costs and problems is included in our written testimony.

MarAd says we are participating in a ship sharing study. I would like to make clear for the record that we are attempting to remove the bias in that study. I don't believe any of us have heard from MarAd since March. We have had very little contact relative to this study.

Ship-sharing will reduce our effectiveness and create unsafe practices, add to the Federal Government's liability, and will remove readily available troop ships from our Nation's inventory. We save the government about $1 million a year per ship for each ship in pier costs and security alone.

I would like to point out that MarAd's budget contains $1.2 million for a five or ten day breakout of an RRF ship.

Last year, New York's ship was used twice in a similar timeframe for an exercise at a cost of less than $300,000 at each breakout. New York's ship was used because no other passenger/troop ships were available on the East Coast.

For the sake of national security alone, ship-sharing is detrimental.

We understand the need for fiscal responsiveness. A year ago, we submitted a cost effective counter proposal to MarAd, which would meet our needs and our Nation's needs. This proposal was drafted by Admiral Ekelund, from California Maritime, utilizing RRF ships, as you mentioned earlier today, utilizing the ships at our free piers, with the States sharing the costs, and the cadets paying to maintain them.

This is also included in our written testimony, together with a funding profile. I would hasten to point out that in a few years, it would save about 38 percent of the budget.

To date, MarAd has chosen to ignore this proposal, and I emphasize that. They have ignored it.

By making all cadets accept merchant marine Reserve commissions, if offered, we eliminate all prospective cadets that are too short, too tall, too old, those who meet Coast Guard licensing standards but not Navy standards.

In the last two years, MarAd and OMB wanted essentially to terminate this program. Now they want to commission everyone.

A year ago they said there is a surplus? What has changed?

The Navy wasn't even consulted on this proposal. This proposal raises questions under the Rehabilitation Act of 1973, barring discrimination on the basis of physical handicap, and the Rehabilitation Act of 1975, barring discrimination due to age.

It also raises questions under the 10th Amendment, in regard to the States' rights guarantees. In this case, the Federal Government will be preempting the States' operation of post-secondary operation facilities.

Linking a merchant marine reserve commission to the training ships and to the admissions process runs counter to the Maritime Education and Training Act. I would like to read just one paragraph, 1304, out of the Act. It says, "The Secretary shall cooperate with and assist any State maritime academy in providing instruction to individuals to prepare them for service in the merchant marine of the United States."

Note, the purpose of the academies and their training ships is to train merchant marine officers—Navy is not mentioned.

MarAd justifies this requirement on callup for mobilization. Present sealift mobilization has no plans for callup of merchant marine reserve officers in a national emergency. This is but one indication of the lack of study of the proposals in the President's budget.

These proposals, by edict, without input from the authorizing Committees are, in essence, in my view "ready, shoot, aim."

The conditions set forth in the President's budget also run counter to the recent recommendations in the President's Commission on Merchant Marine and Defense. The Commission strongly

supports the requirement for the academies and their ships, and reinforces the need for civilian mariners, which I noted last year before this Committee, is contained in the 1986 Navy-Merchant Marine Manpower Study, and the 1986 GAO Ready Reserve Force Study.

The Commission clearly points out that our Nation's merchant marine is in trouble. We want to be part of the solution, not part of the problem.

We are one of the best, cost-effective bargains around.

Our Nation's youth, willing to pay for their education, need a clear signal that the maritime industry is alive. They need a positive signal that our Nation needs them, today and tomorrow.

I would emphasize that our employment is up very well in regard to sailing and jobs in the industry. We are really doing well.

We appreciate the opportunity to testify today and request your continued support, and solicit specifically a companion bill to H.R. 4200 to insure that our cost effective academies will be able to continue to meet our Nation's needs.

Thank you.

We would be pleased to answer any questions.

Senator BREAUX. Thank you very much, Admiral.

In contrast to John Gaughan's statement, you are obviously of opposite opinion. I would say that he had good news and bad news. But you would say that the good news is actually the bad news in the sense that, while they say they want to spend some money on the State academies, additional requirements and restrictions would not be worth the money in your opinion.

Admiral MILLER. Sir, I find it very, very interesting.

I want to show you this graph, which you can see [indicating]. The percentage of graduates in the merchant marine reserve program was 72 percent, in 1982, and 74 percent in 1983. Then MarAd started tinkering with the program. It is a volunteer program. The cadets reacted accordingly [indicating]. It's now 30 percent.

It just started on the way back up, and I can tell you what the impact of this year's proposals is going to be.

But, more importantly, our cadets pay for their education. At New York, alone, the Federal Government pays 12 percent of the total package. The students pay 24 percent. Forcing them and forcing our admissions to make them go into the merchant marine reserve just is not the way to go.

It is going to kill the program.

Senator BREAUX. What's wrong with requiring them to become licensed by the Coast Guard?

Admiral MILLER. I can tell you.

I ran a little study, and I would like to read this. I ran a check with all the schools for the last five years. In the last five years, Texas had two graduates that did not get their license.

In California, it was 13, and they were all foreign. This is just with leaving the system the way it is now.

At Great Lakes, six didn't—they were all foreign students.

At Massachusetts Maritime, 21 didn't—four were physically nonqualified; two didn't pass the exam at the time of graduation; and 15 were foreign.

Maine Maritime did not give me numbers, but 3 percent of the graduates did not have licenses upon graduation.

At New York Maritime, the school that I run, 53 didn't—a big number. But 46 were foreign students; three were not physically qualified for the Coast Guard license; two just didn't take it; and two went in the Navy and didn't want it.

What I'm saying is there are only about 10 or 12 total out of our schools in the last five years that did not end up with a license.

Senator BREAUX. That would seem to indicate that a requirement for a license should not be a problem, then.

Admiral MILLER. Absolutely not.

Senator BREAUX. The administration is requesting that the graduates be licensed, and they are requesting that they be part of the Ready Reserve. Is that the thing you are objecting to?

Admiral MILLER. We are objecting to the fact that we are State schools and the Federal Government would be preempting control, would be taking control of our admissions and graduation requirements.

Jack did you have a comment here?

Admiral AYLMER. I would like to supplement those remarks, if I could, Senator.

I think that the States' rights, and the degree granting authority of States comes into clear focus here, too. The Massachusetts Maritime Academy and my colleague institutions have numerous specialized programs.

We are obliged by Massachusetts State statute to be the Institution of Fisheries Education in our State. Many of our cadets start the program. They are all required to take the full-blown licensing program, but they specialize also with minors in their junior year. Many of them might want to go out and buy two or three trawlers and go into the fishing business.

I think to require those youngsters up front, in high school, to be told that in order to attend and aspire to a career in fisheries, they have to become a naval reserve officer is a little too much.

Senator BREAUX. How would you distinguish, Admiral, between the requirements of State civilian schools that have ROTC programs where if the student enrolls in it he then has an obligation to the military?

Admiral AYLMER. I think the better analogy, if I might respectfully offer this, Senator, is the analogy of the Federal Government assisting a medical school in the construction of a new building, for example, or a new specialty institutional piece of equipment.

Would it be appropriate then for the Federal government to require all of those aspiring physicians to take a commission in the Navy reserve medical corps as a condition of attending that medical school? I think that is a good analogy.

These are State schools. Cadets pay their own tuition and costs. What the Maritime Administration and, in particular, OMB is trying to do—is to draw that analogy with support to the training ships almost exclusively—to tuition-paying students as a reason why they should be required to take a commission.

I feel very strongly, as was the case before, that what is important is that we find in the United States Navy and the Coast

Guard people who want to be there; people who, by way of their voluntary choice, want to take a commission.

We are not lacking in terms of performance. I am pleased to say that right now, in addition to Admiral Piotti, we have eight flag Admirals in the United States Navy who are graduates of Massachusetts Maritime Academy. Two of them are Vice Admirals.

Last year, out of 30 Admirals, three were from Massachusetts Maritime.

So, our youngsters do aspire to naval careers and do a marvellous job in the armed forces. But I feel very strongly that it should be an individual choice of someone who pays something on the order of $7,000 a year of their own money to matriculate at our institutions.

Senator BREAUX. In another area, you all heard the discussion that I had with John Gaughan with regard to the use of the Ready Reserve ships, of which he said there were 93, for a training vessel for the State academies. The basic objection, I take it, was the fact that they were not configured in such a way as to be suitable for transporting academy cadets. They were not capable of carrying passengers.

I really find that unusual, in the sense that I explained—and I won't go over it again.

Do you have any comments on that?

Admiral AYLMER. The Senator is very astute. Because of the fact that the Massachusetts training ship, the *Patriot State,* is an RRF ship, I think the Senator touched on something that for many years has concerned us.

The Maritime Administration budget, submitted to you today, carries something on the order of $72 million of M&R money to maintain those RRF ships that you allude to. There is no reason whatsoever that the "Patriot State" should not be included in that budgetary number.

I cannot see any reason whatsoever that all of the State maritime academy ships hadn't ought to be RRF ships and funded in that account.

Senator BREAUX. How many of the academies have their own ships?

Admiral MILLER. Five do, sir. Great Lakes Region does not.

Senator BREAUX. But five do?

Admiral MILLER. Yes, sir.

Senator BREAUX. Are any of those ships RRF ships?

Admiral MILLER. No. But they have used mine twice as one.

Admiral Piotti told me himself a few years ago, when I discussed this, that "I'll come down and just wave a piece of paper because it is a Federal ship and take it back. It just happens to be under MarAd." They have done that twice this year, at a great saving in cost, too, I might add.

Admiral AYLMER. If I might, Senator, I would suggest that the most casual observer understands that we have been coming here every single year, certainly for all of my tenure, seven years time, and fighting over essentially money for M&R for our training ships—this year something in the order of $6 million. If they were all classified RRF, they would be equivalent to the amount of

debate that has taken place today over the $72 million RRF account for maintence and repair—which has been zero debate.

Senator BREAUX. Well, I think that is a very good point, as far as this Senator is concerned.

Admiral MILLER. Senator, if I could just say one thing. We have submitted a proposal which uses the RRF ships at a very little cost to convert them, using modules. There is a ship in the RRF already, the "Southern Lights," that is configured like that. MarAd is paying for the pier and security and everything else for it.

MarAd refuses to discuss this plan with us, and it will save money.

Senator BREAUX. I think you have all made a good case for some of the points in your testimony. I think that is something we can hopefully address in this reauthorization. But, we need to meet some more on it.

I just don't understand why now you can't use the RRF ships. It would seem to be a good utilization and would probably be less expensive than trying to do some of the ship-sharing that they are talking about.

I mean, the need for your academies I think is made by the testimony. John Gaughan said we have a shortage of 6,000 mariners, or was that Admiral Piotti who said that? I think it was in Admiral Piotti's statement, that we have a shortfall of 6,000 mariners. That is a significant number that is not going to come from the U.S. Naval Academy or the Coast Guard Academy at Kings Point.

We have to have some help out there to meet that kind of need.

I thank all of you for coming. I know you have come from long distances, and I appreciate it. I think this has been a good hearing, and we will try to work with you in trying to accomplish the suggestions today.

Admiral MILLER. May we just thank Glen Delaney. I understand he is leaving. We want to thank him for his support this year.

I'm a little upset that he is leaving.

Senator BREAUX. We are sorry that he is leaving, too.

Thank you all very much.

[The statement follows:]

STATEMENT OF THE PRESIDENTS AND SUPERINTENDENTS OF THE MARITIME ACADMIES/COLLEGES OF CALIFORNIA, NEW YORK, MAINE, MASSACHUSETTS, TEXAS, AND THE GREAT LAKES REGION

We, the Presidents and Superintendents of the State Maritime Academies/ Colleges of California, Maine, Massachusetts, the Great Lakes Region, New York and Texas, appreciate the opportunity to testify relative to the Department of Transportation's proposed budget for the Maritime Administration's (MarAd's) program in maritime education. We are deeply concerned that the changes sought by the Administration in the Federal Maritime Education and Training Act of 1980 will reduce our effectiveness, control our admissions and graduation requirements, create unsafe practices, add to the Federal Government's liability and thus limit our ability to attract young men and women for a career in our critical Maritime Industry. The Administration's proposals are more costly to the Federal government and might kill the State Maritime Academies.

You will recall that the President's Budget Proposal for fiscal year 1987 proposed to eliminate all funding for the State Maritime Academies except the Student Incentive Payments (SIP) for Cadets already under contract in the U.S. Naval Reserve/Merchant Marine Reserve. For fiscal year 1988, the President's Budget Proposal recommended total elimination of all funding and the lay up of our training ships upon completion of the in-year training cruises. MarAd's proposals this year are to control our admissions and graduation requirements and implement a more costly ship sharing plan which has not yet been established as desirable or feasible. These proposals are obstructive, divisive, raise legal and constitutional questions, and/or are impossible to meet. Through the wisdom of the Congress the last two years, funding was restored although at a reduction of 24% over previous years' funding and the training ships were retained at the deep water State Maritime Academy piers. We ask for your support again so that we can continue to meet essential national needs. We are seeking a companion bill in the Senate that is consistent with the authorizing legislation in House Bill HR 4200.

The FY 1989 Budget Proposal for MarAd contains several language provisions that we believe you will find to be in contravention to the Senate Rules. Specifically, the language contains restrictive provisions which are beyond existing law governing the use of the funds requested for appropriation. The restrictions:

1) end the U.S. Naval Reserve/Merchant Marine Reserve (USNR/MMR) Student Incentive Program by phasing it out as the moneys are shifted to the Assistance Payment paid to each Academy under a formula yet unspecified,

2) make application for and acceptance, if offered, of a USNR/MMR

Commission a prerequisite to graduation,

3) require, without any analysis and study as to cost-effectiveness and feasibility, that the State Maritime Academies commence more costly ship sharing in late 1989,

4) dictate that graduates may not be awarded degrees by the States until they have passed the Coast Guard license examination, and

5) disallow Federal funds and the use of Federal ships for training purposes if 2) above is not observed.

These restrictions clearly exceed the authority of the appropriations process and encroach upon the jurisdiction of the authorizing committee to establish a policy and program framework. The proposed language also changes the application of existing law. As such, this represents legislation on an appropriation bill. The establishment of restrictions upon receiving funds or use of vessels is stated clearly in the enabling legislation for the establishment of Federal support for the six State Maritime Academies (46 USC 1304):

"As a condition to receiving any payments or the use of any vessel under this Section, any State Maritime Academy shall:

1) provide courses of instruction on navigation and marine engineering (including steam and diesel propulsion), the operation and maintenance of new vessels and equipment, and innovations, being introduced to the Merchant Marine of the United States, and

2) agree in writing to conform to such standards for courses, training facilities, admissions, and instruction, as are established by the Secretary after consultation with Superintendents of Maritime Academies." (Emphasis added.)

The proposed appropriation language in the President's Budget dictates the conditions upon which the funds are to be used, but makes the determination of the use of the funds solely at the discretion of MarAd. The agreement in writing after consultation with the Superintendents has been excluded, which represents a change in existing law.

Also, requiring acceptance of a USNR/MMR Commission by all graduates as a prerequisite to graduation runs counter to 46 USC, Section 1304(a) which states, "The Secretary shall cooperate with and assist any State Maritime Academy in providing instruction to individuals to prepare them for service in the Merchant Marine of the United States". Subpart A of 46 CFR, part 310.4(c)(5) states, "the training ship is furnished by the Maritime Administration for the purpose of training young men and women to become officers in the

Merchant Marine of the United States." Clearly training for the Merchant Marine, not the Navy, is specified and required.

Specifically, we are seeking the following actions through the Subcommittee:

a) We request that clear guidance be given to MarAd to ensure that ship sharing is studied to determine its cost-effectiveness, desirability and feasibility and that it not be implemented without the approval of the authorizing committees of Congress. Costs should be carefully analyzed. Safety, Federal liability, legislation required for the Federal Government to operate a fleet of training ships, and quality of training and loss of the ships which are critical national assets should also be investigated.

b) We request that the present U.S. Naval Reserve/Merchant Marine Reserve Commissioning Program be left in place and not be phased out until some mechanism for ensuring the availability of an adequate number of trained Merchant Mariners in time of national emergency is worked out.

c) We request that Coast Guard licensing not be required as a condition for graduation from a State program.

d) We also request a change in the appropriation to $10 million vice the $8 million proposed. This will keep the State Maritime Academy system alive. Eight million dollars is insufficient and represents a 33% reduction over the annual appropriation prior to the recent emphasis on our Nation's deficit.

It is relevant to note that the Second Report of the Commission on Merchant Marine and Defense recommended "that the President, through the Executive Branch, should ensure that Federal departments and agencies refrain from any policies and programs that are contrary to the national maritime policy and detrimental to the Maritime Industries."

Despite this recommendation, the Office of Management and Budget (OMB) and MarAd through their present proposals in regard to the State Maritime Academies are attempting to institute policies with no study and on no cost-effective basis that will severely limit the ability of the academies to produce well trained graduates. In fact, these proposals may kill the State Maritime Academy system. We are the recruiters for the Industry and these policies directly impact on our ability to attract the youth of America, the individuals the Commission on Merchant Marine and Defense clearly points out are lacking in the Industry today.

The Commission, as well as the 1986 Navy Merchant Marine Manpower Study and GAO 1986 report on the Ready Reserve Force, clearly points out that unless actions are taken to correct the downward trend, the number of mariners required to be available to man our ships by the year 2000 will

be reduced by one-half. Today about half of the American seafarers are at least 50 years of age. Young vital dedicated men and women are needed to replace them.

The Commission on Merchant Marine and Defense states in simple language that there is a need to preserve the capability to train licensed personnel in state training facilities. Why in the name of national interests and security does MarAd attempt to hamper the ability of the State Maritime Academies to perform their mission? Instead of taking action to assist as strongly recommended by the Commission, they do the exact opposite. It is difficult to conceive that the Administration wants to take this action on one hand, while on the other hand, the President himself in the January 1987 report entitled National Security Strategy of the United States specifically cites, "the lack of Merchant Mariners in the near term could impede our ability to adequately project and sustain forces by strategic sealift." (Emphasis added.) As pointed out, the 1986 Navy Merchant Marine Manpower Study and relevant studies find the United States will be critically short of personnel to man just the Ready Reserve Force and U.S. Flag ships by 1992. This finding of a shortfall is made with the assumption that the State and Federal Maritime Academies will continue to produce the present annual output of licensed officers. It would seem the left hand doesn't know what the right hand is doing. The signals are very confusing especially to the Cadets presently enrolled and prospective applicants.

Under the 1980 Federal Maritime Education and Training Act, the Federal Government provides funding to the State Maritime Academies for:

1. A training ship plus ship's maintenance/repair and fuel money when authorized (Great Lakes excluded) to allow our Cadets to meet the Federally mandated "sea time" license requirements.
2. $100K per school for administration of a State Nautical School.
3. Student Incentive Payments ($100/mo) for students accepting commissions in the U.S. Naval Reserve/Merchant Marine Reserve.

The State Maritime Academy system is our Nation's most cost-effective system to produce licensed officers, officers already noted by every study to be in short supply. The President's Budget Proposal intends to put the State Academies on a parity with the U.S. Merchant Marine Academy whose budget this year is over $23 million, producing approximately 200 graduates per year. Over the last several years, the State Academies have produced on the average over 700 licensed officers per year at an average cost of $9 million/year. While the Commission is recommending a reversal of the

decline of the Maritime Industry, this cost-effective system will be forced into decline by the Administration's budget proposals.

In a 1985 cost study at New York Maritime, the share of the Federal Government to produce a graduate from the State Academies was 17%, the State's share was 63% and the students 20%. These figures have changed in the last three years. The Federal share has dropped to 12.6% while the student's share has increased to 23.6%. The State share has remained essentially constant at 63.8%. As can be seen, the students have picked up where the Federal Government has declined. Those in the Merchant Marine Reserve Program are paying more for their obligation than the Federal Government.

We seriously doubt that MarAd has considered the additional costs that will now be the responsibility of the Federal government and also the additional costs which will necessarily have to be passed on to our Cadets (students).

MarAd's proposed ship sharing order without a feasibility and cost-effectiveness study, provides a total of two training ships to provide a minimum of nine weeks of underway training time for five State Academies, four weeks between cruises for orientation, safety training and necessary voyage repairs, and several weeks for an adequate shipyard availability. MarAd has already admitted the operating costs could be as high as $12 million, $3 million more than is already being appropriated. Depending on the circumstances we can project upwards of $14 million in operating costs. These costs are all speculative and should be addressed in a feasibility study. No corporation would implement a change of this magnitude without a feasibility study as to cost-effectiveness, ability to meet requirements, reasonability, etc. In these times of fiscal restraint, why is MarAd attempting to implement ship sharing without proper analysis?

The sharing of two training ships by five academies which are geographically widely dispersed and are each dependent upon regular access to a training ship to meet International Maritime Organization and U.S. training and licensing requirements is in our view not feasible. Ship sharing shifts the responsibility of the training ships from the States to the Federal government. MarAd becomes a training ship fleet operator. In our opinion, in addition to not being cost-effective, ship sharing causes many problems. It creates unsafe practices, shifts liability to the Federal government, disrupts our academic institutions and many, many more. These items are highlighted below but are elaborated in Appendix A.

Ship Sharing Problems

- Safety is a critical problem. Cadets are the crew and are inexperienced. Cannot take college students

out of shore atmosphere and put them on board ship and sail off. Ships at Academy piers are school's main laboratory. Students are familiar with ship they sail.

- Proposal is made with little discussion and no cost and comparative analyses of the present system including replacement ships. It is not cheap.
- Increased costs of maintaining vessels without cadet-free labor.
- Increased cost of permanent Federal crew - wages, overtime, per diem, vacation, travel, medical.
- Adds costs for a MarAd management and supervisory staff. MarAd would have to pay for a nucleus shipkeeping staff to supervise ship maintenance and operations and to facilitate the transition of the ship from school to school.
- Adds costs of repairs previously done by State cadet and labor force including repair materials previously supplied by the State.
- Increases costs of fuel oil to move the ship from academy to academy.
- Increases costs because at Federal expense Cadets will be moved from at least one academy to West Coast or vice versa.
- Increases costs of consumables which were previously supplied by the States.
- Adds costs of insurance for injuries.
- Negative impact on student attitude and morale.
- Shifts liability from States to Federal government.
- Disrupts existing State labor agreements.
- Quality of training year round will suffer as ship is main laboratory on the campus, i.e., operating engineroom, cargo gear, ship maintenance, etc.
- Proposal has ship touch at each campus a bare minimum time for cadet checkout, presail training, loadout, etc.
- Little time between schools for maintenance and required Coast Guard annual inspection. Problem worse in Northeast

with three schools sharing one ship. Maintenance and inspection normally takes 2 or 3 months each year; 2 months at sea cruise per school leaves little time for system checkout and loadout.

- If ship is delayed in overhaul or has problems, follow-on schools using ship have extreme scheduling problems.
- Single ship sharing has been done in past by two schools when a problem has occurred on a particular training ship. It has been almost unmanageable at best, i.e., transferring state owned consumables, moving Cadets, etc.
- Retention and maintenance of the existing five training ships on short notice can help meet Navy's troopship requirement for national security. They are maintained by Cadets and cost is shared by States. Ships strategically located around our National sea coast, free pier space, not nested in vulnerable Reserve Fleet. Cost-effective program would appear to accommodate Nation's budgetary problems. The case for necessity of training ships was made in a 1982 DOD Auxiliary Troopship Study.
- Also the 5 State Maritime Academy training ships are carried in the U.S. Marine Corps Logistics Support Management Program as troopships.

Finally, Marad officials in the current Administration previously stated on 8 February 1984 in a hearing before the House Subcommittee on Merchant Marine, "First of all, let me say that the reviews which were conducted over a year ago about the possibility of consolidating have proven to be unrealistic and unfeasible, and I intend to keep a good training ship for each of the schools."

THERE IS A COST-EFFECTIVE ALTERNATIVE TO MARAD'S SHIP SHARING PLAN.

As discussed in this Hearing last year, in lieu of ship sharing, RAdm J. Ekelund, USN (Ret.), Superintendent at California Maritime Academy, has developed what we believe is a cost-effective plan that meets the needs of the State Maritime Academies and the Federal Government. This plan suits the smaller schools through use of ships in the Ready Reserve Force (RRF), thus ensuring that the smaller maritime academies can have replacement ships. This proposal has been submitted to MarAd resulting in no reaction.

This proposal is based on the assumption that (a) a major concern

of the Administration is the ultimate replacement cost of training ships, (b) the Federal Government can make a long-range commitment, and (c) now that MarAd has been given control of the RRF that they would agree to the conversion of some RRF ships in first class condition to training ships with the permanent loss of about 20% of their cargo carrying capacity and the substitution therefore of troop space for 300 to 400 Cadets and staff or that modular conversion is feasible. One ship in the RRF outported in Philadelphia, Pennsylvania, the SOUTHERN LIGHTS, is already configured in this manner.

If these assumptions are valid, then it is possible with an annual budget in FY 90 of $12M declining to a steady state budget in FY 96 of about $6.2M in constant dollars to replace the training ships from government-owned RRF assets and continue replacement ad infinitum and provide necessary funding to the State Maritime Academies. This plan is less costly than MarAd's proposed ship sharing plan.

The ship class looked at by California Maritime Academy was the ex-FREDERICK LYKES, a C-4. The conversion is essentially to #5 hold with two decks added above it. This conversion would cost about $10 million and would provide galley, messing, berthing and sanitary facilities for 300 to 400, additional staterooms, expanded wardroom, sewage treatment, evaporator and air conditioning capacity, lifeboat additions and classroom space.

A major premise of the alternative is that the RRF ships are currently being maintained and outported at an annual cost of about $1 million each, breakouts cost an additional $1.2 million. After conversion and while being operated as training ships, these same funds would be more than adequate for long-term maintenance. Indeed, savings would be achieved through the free outporting at the academy piers and the Cadet-free labor contributing to ship maintenance.

If you consider that it costs approximately $1 million/year to outport an RRF ship and it costs $1.2 million to activate one ship for an exercise (state academy ships were used twice this past year achieved at a cost of less than $300,000 each time), a savings of $6.8 million could be realized. We propose a cost-effective plan, a plan that will save funds while MarAd disregards such alternatives and continues to plan for implementation of their more costly proposal.

The funding profile for our proposal is shown in Appendix (B).

In 1987 and 1988, the Administration attempted to eliminate support for students in this program at State Maritime Academies on the argument

that the United States had a surplus of trained mariners and that the Federal Merchant Marine Academy meets the national requirements for annual inputs. This was in the face of the GAO, Navy and Commission on Merchant Marine and Defense's pronouncements of projected shortages in licensed mariners and the President's own strategic assessment last year cited a shortage of maritime labor as a growing problem. The President's 1989 budget now proposes to hold all Federal support for the State Academies, including any use of training ships and the funds previously earmarked for those accepting an eight year Naval Reserve obligation, hostage to the requirements that the States establish as a condition of graduation from their Academy that each graduate, among other things, apply for and accept a Reserve commission. We have then gone from none required in 1988 to all are required in 1989. This has been done at no projected saving in funds. Indeed, the costs will have to be much greater because there will be a manifold increase in those serving their obligation who must be paid and trained by the Navy during their years of training obligation. Indeed, the commissioning processing alone will be more costly. The Navy was not in on the planning for this costly proposal.

There must be a hidden agenda here. Is it the hope by OMB that no Academy can install the Reserve obligation as a condition for graduation and make it work? Is it mainly to remove the administrative burden and cost from MarAd and shift it to the States and the Navy? Is it that the Congress might just pass the proposal into law and that the States may then not be willing to impose the demand for Federal service obligation on their tuition and fee paying students?

We think this is a bad proposal. We think it was dreamt up in OMB and did not get much cerebral processing. We think that if it is supported by the Congress in budget legislation, that it will severely reduce the size of the individual State Maritime Academies and thus jeopardize their continued existence at a time when, as the Commission on Merchant Marine and Defense points out, they are needed to produce mariners today and as a resource to be used in time of national emergency to increase the production of officers.

The Merchant Marine Reserve program should remain a volunteer program for those students who are attending State Maritime Academies and paying their own tuition. Freedom of choice is an important concept which should be preserved here.

Requiring all Cadets to apply for commissions will exclude from officer

status in our Merchant Marine all citizens who may be too tall, too short, too old or who otherwise are unable to fit within the Navy's commissioning standards - which have been established to meet Navy, not Merchant Marine, needs or simply do not care for an affiliation with the Navy. Many of our Academies have historically attracted larger numbers of so-called "non-traditional" students who are older or otherwise unacceptable for Navy commissions. The physical requirements to obtain a Coast Guard license are much less stringent than those to obtain a commission in the Armed Forces and such a requirements raises questions as to compliance with Section 504 of the Rehabilitation Act of 1973, barring discrimination on the basis of physical handicap, and the Age Discrimination Act of 1975, as amended, barring discrimination against those of age 40 or older. MarAd claims that we will be able to continue accepting such students because "the Navy will reject their applications for commissions" and they will be free of any government obligation. This approach is devious, insincere, immoral and downright foolhardy! How can we propose at the outset of any recruiting activity that the candidate be prepared to sign commissioning application documents knowing them to be false or inappropriate? Beyond these moral and practical issues, however, is the fact that State Maritime Academies exist under law to train officers for the Merchant Marine, not the Navy!

We can understand the interest in making the Student Incentive Payment (SIP) Merchant Marine Reserve program more effective, efficient and reducing its administrative burden. We could work with MarAd to that end if given the opportunity. The Administration's proposal will not do that and will result in reduced Reserve and active duty accessions from the State system.

Linking a Merchant Marine Reserve Commission to graduation also links it to admissions. By doing so, young men and women who are physically qualified for a Merchant Marine Officer's license but not a Naval Reserve Commission will in all probability not apply. Merchant Marine Officers' licenses have never been tied to a Naval Reserve Commission. Why start with the recruits when all studies point out they are needed as Merchant Marine Officers now. Why reduce the input? We should be instituting policies that will improve the manning situation, not hinder it.

OMB and MarAd's linkage of the use of a training ship to the Merchant Marine Reserve program by the Administration also is a considerable departure from the previous intent of the Congress. As noted previously, section 1304 of the Maritime Education and Training Act states that the purpose of the academies is to provide instruction to individuals to prepare them

for service in the Merchant Marine. Nowhere is a Naval Reserve Commission even implied. As noted in part 310.4(a)(5) of 46 CFR, the ships are specifically provided for the training of licensed Merchant Marine Officers. No mention is made of the production of Naval Reserve Officers. It is urged that the Congress reject that linkage.

MarAd's new proposal to control admissions/graduation requirements for the State Academies, conditioning them to approximate the Federal Merchant Marine Academy, is out of order. Such a provision raises Constitutional questions which under the Tenth Amendment addresses States Rights guarantees. If MarAd was to have its way, it would be imposing an "affirmative obligation" on the States that contains Maritime Academies to train only people who would enter the MMR program. Furthermore, the Federal Government has not pre-empted the States in the operation of State post-secondary educational facilities. It is the prerogative of the States and the Academies' directing bodies, that provide the majority of the funding, to control these requirements. On the other hand, MarAd has every right to control admissions and graduation requirements at a Federally owned, Federally funded and controlled institution. Of course, MarAd can write standards for the State institutions' professional curriculums and sea-time equivalencies for Federal Merchant Marine Officer's licenses; overall academic control is a matter for the sponsoring State.

Levying the admissions/graduation requirement on all Cadets of accepting a commission, if offered, without any quid pro quo such as SIP and without any "enforcer" is folly. Why should Cadets, who receive nothing in kind and who pay for their own tuition, room, board and books, want to become involved with this long-term commitment? This requirement eliminates non-physically qualified applicants who are physically qualified for the Federal Merchant Marine Officer's license but not a Naval Commission. These appear to run counter to other Federal statutes offering protection for the physically impaired and those over 40 years in age, individuals that the Commission on Merchant Marine and Defense notes are sorely required in the Maritime Industry. The States who must maintain the State Academies on a paying basis can not accept requirements which will limit the number of students. This is not a Federal prerogative.

It is a mistake, in our view, to experiment with every aspect of Federal support to the State Academies when the system in being has successfully served industry and the Nation in peace, recession and war and at very low Federal cost for 114 years. We still remain the cheapest way for the Federal Government to achieve all of its objectives with respect to the education

and training of licensed Merchant Marine Officers and the development of a Merchant Marine Reserve. As the Commission on Merchant Marine and Defense recommends we should not have policies or new policies introduced which impact on the Maritime Industry. MarAd's proposed changes impact negatively on the recruiting and training baseline of the Industry.

A major objective of this particular Administration is to remove the Federal Government from unnecessary or inappropriate endeavors and return functions to the States. But, does it make sense to modify a true partnership with the States and the Cadets whose cost-share is significantly more than the Federal Government's?

The total number of graduates per year from the six state and regional academies is about 700. From among those graduates who accept Reserve commissions, approximately 80 volunteer for active duty in the Navy or Coast Guard. Each of these accessions is achieved at maximum total cost in Student Incentive Payments of approximately $4,500 over four years, a considerable savings to the Nation over any other source of Mariners fully qualified for immediate sea duty and leadership roles. This is our Nation's most cost-effective commissioning source. For our island nation, so dependent upon the sea and world commerce, this is a very valuable contribution to our security. Our students pay tuition and fees for their education, including training cruises, naval science courses, and attend eleven month academic years which deprive them of the opportunity for summer employment. They earn Federal licenses along with their degrees while in a uniformed and disciplined environment. The respective states and industrial sources contribute the balance of academy expenses over tuition. The Federal Government's share, including student subsidies, ship maintenance and repair and fuel oil, is cost-effective.

This sharing of effort represents one of the best bargains available to the Government, and yet the Administration annually seeks to reduce the maritime education budget by not including or modifying support for the State Academies. This very small savings to the Federal Government imposes a severe training hardship on our institutions while reducing the incentive to develop an adequate number of required Merchant Marine Officers and a Merchant Marine Reserve component of the U.S. Naval Reserve. It runs totally counter to the recommendations of the Commission on Merchant Marine and Defense.

We submit that the continued existence of our State supported institutions assures our Nation's most economical, cost-effective method of producing Merchant Marine officers. We believe that our students return far more

to the economy and the National defense needs of our Nation than they cost and that the survival of the State Maritime Academies is in the national interest. We have been tasked with this responsibility for 114 years.

The Commission on Merchant Marine and Defense, in addressing Maritime Education and Training, expressed great concern for the possible loss of the six State Maritime Academies as a result of lack of Federal support. The Commission stated that the closing of these institutions would eliminate capabilities that could not be easily reconstituted even if in time of crisis. If a United States Merchant Marine is required for national and economic security, the training pipelines must remain open and not be hampered by unrealistic and unfeasible Federal policies. The Commission recommended that the expenditure of Federal funds for the Maritime Industry should be justified and the costs should be borne by the nation as a whole. The United States must take adequate measures to ensure an adequate supply of mariners. Heroic measures will be necessary. Let us reverse these trends by positive government action, not misdirected action.

The youth of our Nation need a clear signal that the Maritime Industry is not dead. They are willing and ready to go to sea. We earnestly request that the opportunity to do so through cost-effective education and training at State Maritime Academies be continued. We also believe this system should not be modified so that it may remain in place for National Security as a necessary expansion base.

Again, we solicit a companion bill to House Bill HR 4200 as amended by the House Merchant Marine and Fisheries Committee. This action will ensure that the most cost-effective system of producing licensed Merchant Marine/Merchant Marine Reserve Officers will be continued.

We would be pleased to assist you in any studies you may wish to undertake with regard to the issues that we have raised and would be happy to have the opportunity to discuss our situation with you and your staff at your convenience.

APPENDIX (A)

STATE MARITIME ACADEMY SHIP SHARING
PROBLEMS WITH THE MARITIME ADMINISTRATION'S PROPOSAL

Lack of Analysis - The proposal is made with no feasibility study or input from the State Academies or the Department of Defense (Navy). There has been no comprehensive research or comparative analysis with the present system including merits and problems. Alternative and perhaps more cost-effective plans have not been explored. The ability to make shipsharing work in the real world should be considered in a complete feasibility study. MarAd is presently conducting a study but it is an implementation study not a feasibility study. The feasibility study requested by the House Appropriations Committee during the last session is not being done. MarAd, by edict, plans to commence ship sharing in late 1989. By MarAd's own admission, it is a more costly program. The proposed program is not only more costly to the Federal government but the States and Cadets (students) as well.

Safety - The Cadets are the crew and would be inexperienced. Presently the ship they are going to take to sea is programmed into academic and professional training while the ship is at the campus pier. The proposed plan does not provide adequate time (one month) nor does it consider that during the same period stores must be loaded and the Cadets must move aboard. Storing of the ship requires all hands. Having an alternate ship, if provided, at the campus for training, particularly in regard to the fire safety, damage control and propulsion plant indoctrination, does not help. The Cadets must know where the valves, piping, hoses and equipment are on the ship they take to sea, not the one alongside the pier. You simply can not take college students out of a shore environment, put them on a complex piece of equipment like a ship and sail off.

Also, the plan forces the State Academies to hire temporary licensed officers and crew to replace the present employees who will be laid off as a result of ship sharing. The temporary people will most likely not be familiar with the ship nor the Academies' training methodology, not even the Cadets themselves. The present full time officers and crew are the key to safe ship operations by the Cadets. This situation would be exacerbated if MarAd has an excessive turnover of personnel assigned to the nucleus crew. There is even the possibility that the States will be unable to hire temporary crew because of their concern over sailing a vessel they are not familiar

with. There are no other ships in our Nation that operate with up to 500 supervised youths.

Lack of Management Plan to Include Liability - The proposal does not deal with the Federal/State relationship in regard to responsibility, authority and liability. As presently mandated by 46 CFR Section 310.4(a)(5), the Federal Government is not liable for the present ships. The States have responsibility and authority. With a nucleus Federal crew, responsibility and authority are now shared. When the Jones Act is considered, the U.S. Government is open to greater liability.

The training of the Cadets and operation of the ship will most certainly suffer as in some cases Federal employees will have authority over State employees and in other cases it will be the other way around. The personnel practices of the Federal Government and each State do not coincide, not the least of which are grievance procedures and even holidays.

Financial Considerations - Using industry standard base costs for a seven person Federal nucleus crew, crew costs per ship would approximate $2,800/day or $1,022,000 a year. Contractual overtime normally is 60% of base pay. When maintenance and repair and port operations are considered, overtime is about 80% of base or in this case $817,600 more. Thus Federal nucleus personnel costs for the operation of two ships is close to $4,000,000/year especially when travel and per diem for the nucleus crew are considered. When fuel costs, nominally $300,000 per cruise, and consumables and other related cruise costs that the States now cover, plus transportation costs of Cadets and staff to and from the ship, i.e., California to Texas (it costs $177 one way to fly from San Francisco to Galveston, not including bus fares) are added (approximately $300,000) to the average maintenance and repair of the ships, $1.5 million each, there is no cost saving.

Additional costs for placing two ships in proper condition as training ships plus lay up/disposal costs of the present ships have not been considered nor have MarAd's administrative costs for establishing a fleet operations staff ashore.

Costs are also not included to cope with a two ship berthing situation that develops if a State choses to keep another vessel alongside a campus pier. When the training ship arrives for the pre-cruise period, due to the fact

that at most campus piers two ships can not be berthed, one of the vessels would have to be berthed or anchored elsewhere. This is a major cost item, even at anchor, as the auxiliary systems must be operational supplying steam and electricity. The ship must be manned with scheduled licensed and documented personnel.

Present five ship funding for maintenance, repair and fuel	$7.5 million
Two ship funding	
Crew	$4.0 million
Fuel	1.5
Consumables and related cruise costs	2.0
Transportation costs	.3
Annual maintenance and repair	3.0
Breakout for MSC exercises (2/year)	2.4
Fleet Operations Staff (MarAd)	.5
Projected Annual Cost	$13.7 million
Layup/Disposal of present ships	$4.0 million

Cadet Costs - Because the sea training period must be increased for the Cadets to become familiar with the ship, their costs will commensurately increase for tuition, where applicable, and board.

Scheduling - Two ship scheduling creates major disruption to academic schedules for many academies by putting them out of synchronization with high schools (input cohort) and other universities, colleges and community colleges. This affects transfer students in addition to first-time full-time students. Athletic schedules would also be impacted. This type of disruption can severely deter incoming students. They may opt to go elsewhere.

If a ship is delayed in overhaul or has problems, follow-on user schools have extreme scheduling problems due to the chain reaction. There is no fall back position. This situation would delay upwards of 500 to 600 Cadets from graduating on time and affect the required Federally mandated sea time of at least 1,500 Cadets.

Required NROTC cruise periods for the New York and Maine Midshipmen must be considered as Midshipmen must make Navy cruises in addition to their respective Academy training cruises.

The shared training ships will not be available on short notice to meet the Navy's troopship requirement for national security. It is conceivable both could be on a training cruise simultaneously.

Quality of Training - The unavailability of the specific ship that is sailed to be used as a laboratory platform, during the academic year directly affects safety and technical training.

The present tailoring of individual training ships to optimize the Academy's programs would not be possible. The quality of training year round will suffer. States can not put training aids, mock-ups, i.e. gas turbines, boiler simulators, etc., on the ships only to remove them after a cruise. This type of equipment must be used all year. Presently this type of equipment is available on the training ships whether they are at sea or in port. The proposed plan ultimately places MarAd in control of training as they control the ship. In addition, MarAd, because of this proposed control of the ships, could terminate the cost-effective State Maritime Academy system more easily. There is no security for the Academies. They would no longer have control of their programs. They may well decide not to have a program.

Loss of National Asset - The present training ships can on short notice help meet Navy's troopship requirement for national security. They are maintained by Cadets and the costs are shared by the States. The ships can be strategically located around our National sea coast with free pier space, and are not nested in a vulnerable Reserve Fleet. This cost-effective program would appear to accommodate our Nation's budgetary problems. As noted in MarAd's Fiscal Year 1989 budget, it costs approximately $1.2 million to activate a RRF ship on a 5 - 10 day notice. This past year, New York's training ship was activated on the same notice time frame at a cost of less than $300,000 for activation. New York's ship had to be activated as no other troop ship was available for the required exercises on the East Coast. There are none readily available. The Report of the Commission on Merchant Marine and Defense felt so strongly about the utilization of training ships as troopships they recommended a "procure and charter" program for troopships to meet DOD's seaborne troop transportation requirement. Such troopships would be assigned to the State Academies as training ships. The Commission has also stated that the loss of the training ships to the State Maritime

Academies would be devastating.

It should also be noted that the State Maritime Academy Training Ships are considered necessary in the 1982 DOD Auxiliary Troopship Study and also are contained in the U.S. Marine Corps Logistics Support Management Program as troopships.

Under ship sharing the availability of potential readily available military vessels would be reduced from five to two. The vessel availability would be nil thus causing major disruption to the State operated institutions in addition to impacting on National security.

Ship maintenance - The underway maintenance presently accomplished on board would have to be minimized in deference to more classroom and watchstanding training because of the lack of the actual ship alongside the campus pier during the academic year. A large portion of ship painting and other daily maintenance would have to be paid for at market rates to non-cadet labor. The ships assigned would not be new, thus requiring considerable continuing maintenance. Also, the cost-effective Cadet maintenance that is accomplished on the training ships between cruises would not be done as well and there is the loss of the various academy electrical, plumbing, woodworking and machine shops to be considered.

Would Cadets want to work as they do now on a ship that is not theirs? Shipboard priorities would necessarily have to change.

State Responsible Items - The proposed plan would call for accountability of Federal items, many of which previously were state responsibility, i.e. tools, paint, mooring lines, oils and greases, etc. However, it would be virtually impossible to account for State responsible items such as food, navigation training charts, sheets, pillows, blankets, etc. Ordering of these items for cruise would be extremely difficult, considering the short period when the ship is available before cruise due to the lack of knowledge of quantities that would be on board.

Other Issues - Maritime specialist personnel presently assigned to the ships would be terminated (retrenched) bringing in union involvement and State involvement in regard to retraining. This would certainly become an issue for the individual State Congressional representatives.

The faculties and staffs would seek union involvement due to the changes in work schedules, vacation times, etc. Due to required changes in the contracts and the layoffs of ship personnel currently employed, there will be considerable union involvement.

There will be a negative impact on student morale and attitude.

MarAd's proposed concept is contrary to the National interests.

TRAINING SHIP REPLACEMENT PLAN

FUNDING PROFILE (000)

	FY 89	FY 90	FY 91[3]	FY 92[4]	FY 93[5]	FY 94[6]	FY 95[7]	FY 96[8]	FY 97	FY 98	FY 99[9]
Maintenance & Support	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600
Student Incentive Payments	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Fuel	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Ship M&R	6,800	3,030[2]	3,030	2,030	2,030	1,230	1,230	0	0	0	0
Conversion Fund	(1)	5,770	5,770	5,770	5,770	5,770	5,770	3,000	3,000	3,000	3,000
TOTAL	10,000	12,000	12,000	11,000	11,000	10,200	10,200	6,200	6,200	6,200	6,200

(1) New York replacement commences conversion with funds already appropriated.
(2) New York and Massachusetts ships maintained from RRF maintenance and outporting funds.
(3) FY 91 allows second conversion for $11,540K.
(4) FY 92 second conversion maintained hereafter from RRF maintenance and outporting funds.
(5) FY 93 allows third conversion for $11,540K.
(6) FY 94 third conversion maintained hereafter from RRF maintenance and outporting funds.
(7) FY 95 allows fourth conversion for $11,540K.
(8) Arrived at steady state condition with conversion possible every 4 years.
(9) PATRIOT STATE replaced after 14 years in service and at age 40+.
(10) Ten year cost is $91,200K or less than current average annual cost with 38% savings thereafter.

Senator BREAUX. The Committee will be adjourned until further call of the Chair.

[Whereupon, at 12:01 p.m., the Subcommittee adjourned.]

[The following information was subsequently received for the record:]

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June 10, 1988

BY HAND

The Honorable John B. Breaux
Chairman, Merchant Marine Subcommittee
SH-425 Hart Senate Office Building
Washington, D.C. 20510

RE: FY 1989 MARAD AUTHORIZATION BILL

Dear Mr. Chairman:

The United Shipowners of America (USA) has a substantial interest in the MARAD Authorization Bill for FY 1989 because our member companies own and operate over 95% of all U.S.-flag liner ships in international trade and an even larger percentage of ships having operating differential subsidy contracts. We have reviewed the appropriations requests and believe that they are generally adequate to meet ODS payments required by existing contracts during FY 1989. However, we suggest that it would be prudent to include an additional ODS authorization of $50,000,000 as recommended in House Bill H.R.4200 because of the prospect that the ODS program will be modified to bring in new contractors during FY 1989.

The President's budget again proposes elimination of the R&D line item from the Maritime Administration's budget. Although we understand that some $2 million for R&D purposes is included in the MARAD operations budget, we believe that inclusion of the line item in the Authorization Bill is important to underscore the need for continuation of this promotional activity.

The majority of U.S.-flag liner operators have highly sophisticated services which compete for the more valuable cargos requiring speedy and often specialized handling. These companies have introduced the majority of innovations in worldwide liner service since World War II. To maintain their competitive edge it is important that they continue to be first with new innovations in technology and service. There are certain ideas that the Government is uniquely positioned to develop and test and others, which while worthwhile for the entire industry, cannot be justified by a single company.

A good example of this is the Cargo Handling Cooperative Program (CHCP), which was formed with the encouragement of the Maritime Administrator as a joint venture of U.S.-flag liner carriers in 1983. The purpose of the CHCP is to conduct joint

cargo handling research and development leading to increased productivity. Through the cooperative organization, carriers can share in projects whose benefits are not immediate and whose risk/reward factor is not favorable for carriers to undertake individually.

Members of the CHCP are American President Lines, Ltd., Matson Terminals, Inc., and Sea-Land Service, Inc. The cooperative agreement is cost-shared with operators paying about 60% of the vital cost in 1988.

The industry members administer the program through an Executive Committee. They define problem areas to be addressed, perform technology search and assessment, install and test prototype systems in their terminals, disseminate information on their research to all U.S.-flag carriers, and provide for their share of funding through an annual assessment.

An example of what can be gained through such cooperative effort is the development and testing of the use of hand-held computer terminals which are used by marine clerks in the container yards to take inventory and note location of containers. Through radio link with a central computer, yard inventory is updated and kept accurate as the information is input by the clerks. This system replaces the manual inventory, saves countless hours searching for containers, provides accuracy and timeliness, and improves vessel turnaround and customer service. Tests performed by the CHCP indicated that for an investment of $50,000, savings of better than $100,000 per year were achievable from the use of the new technology.

Other work accomplished by the CHCP includes the development of simulation models for long-range planning of marine terminals and for better control of day-to-day operations. Technology for the automatic identification of containers, chassis and other transportation equipment has been tested for use in the marine environment and has been proven an efficient and cost-effective means of tracking and tracing equipment in intermodal transportation. A major effort to standardize the technology is being led by the CHCP which will lead to a national and international standard.

Joint projects with Department of Defense agencies are: working on systems to automate containerized cargo manifesting; improve maintenance and repair of equipment; and automate the identification of warehoused cargo.

If MARAD had not had the funds and thus the ability to participate in these projects, it is likely that the highly beneficial work performed and still under way would have been developed much more slowly, to the detriment of U.S. carriers, shippers, and the nation as a whole.

Accordingly, we support inclusion of R&D money for MARAD and suggest that it be continued as an individual line item.

Thank you for your consideration of these views.

Yours sincerely,

Albert E. May

Albert E. May
Executive Vice President

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